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International

* Trade Surplus Expansion Expected With Cheap Yen

902A0168A Tokyo NIHON KEIZAI SHIMBUN in Japanese 13 Apr 90 p 3—FOR OFFICIAL USE ONLY

[Text] **Private Research Institutes Revise Their Fiscal Year 1990 Economic Forecasts**

While declining significantly during fiscal year 1989, [Japan's] trade surplus showed an increase this March for the first time in 11 months. There are now signs that exports of such things as auto parts will increase because of the cheap yen which began last year. Thus, the view is strong that "the brakes have been applied to the further reduction of the trade surplus." If the cheap yen continues further there is a possibility that the trade surplus may again expand.

In the economic forecasts for fiscal year 1990 compiled by the Japanese Government and private research institutes, it was estimated that the yen exchange rate would average between 130-149 yen per [U.S.] dollar . The cheap yen since the beginning of this year has caused a major change in this scenario. The estimate of the actual trade results for fiscal year 1989, which forms the basis for the fiscal year 1990 forecast, also has dropped by $10 billion, compared to the forecast at the end of the year.

Recently, the view has gained strength among government officials and economists that there has been a change in the underlying tone of trade surplus reduction. Various research institutes have revised their trade surplus forecasts recently, but these forecasts are not based on the trade balance statistics made public on the 12th of April; rather, their forecasts are based on the balance of international payments, which use a different statistical standard. The Sumitomo Bank, Ltd. and Nomura Research Institute forsee that, compared to the estimate of actual results for fiscal year 1989, there will be increases in Japan's trade surplus by $6.3 billion [Sumitomo Bank], and $1.4 billion [Nomura Research], respectively.

Fiscal year 1989 witnessed a consistent movement in the market toward a cheap yen and the reduction of dollar-based exports. However, recently there have been some signs of an expansion of exports on a quantity basis caused by the cheap yen. Some are saying that "there must be some enterprises in the auto parts and consumer electronics [industries] which will attempt to increase their exports." Plant exports for fiscal year 1989 are believed to have reached their highest level in seven years owing to the recovery of competitiveness brought about by the cheap yen. It seems that this favorable trend will continue into fiscal year 1990.

However, it appears it will be difficult to expand exports drastically owing to the increased production of automobiles locally, trade friction with Europe and the United States, and the fact that the surpluses enterprises have available for export are small because of strong domestic demand. This is why Sumitomo Bank, Ltd., which attaches the most importance to the effects of the cheap yen, estimates that the increase in exports will remain small.

If the trade surplus is on a level of $70 billion, then the current account surplus will remain on the level of $50 billion, and the ratio to Gross National Product (GNP) will remain under 2 percent. The government judges that "if the current account surplus is under 2 percent, this will be good as far as the macro-balance is concerned...we just need to reduce our trade surplus with the United States while maintaining this level," (Economic Planning Agency).

Meanwhile, Dai-Ichi Kangyo Bank and the Fuji Research Institute attach great importance to the export substitution effect of overseas local production, rather than to the effects of the cheap yen. They estimate that the trade surplus for fiscal year 1990 will decrease from that of fiscal year 1989.

With the sudden fluctuation of the yen market, Japan's major corporations are in doubt as to what strategy they should employ. According to a major electronics manufacturer, "opinion is strong within the company for increasing exports." If the cheap yen continues further, and especially if domestic business becomes overshadowed, there is the possibility that an export drive will get under way, and exports will expand.

Within the government also, the concern that the nation's trade surplus will expand too far is much stronger than the anxiety that "Japan's current surplus will be too small."

Industrial World Concerned About Surplus Reduction; Cheap Yen Raises Import Costs

Japanese industry, led by automobile and electric manufacturers which exports vast amounts of goods, has come up with the "International Accord Program," which has at its core the idea of expanding imports. Based on a Ministry of International Trade and Industry (MITI) request, Japanese industry has been making an effort to reduce the trade surplus, industry by industry. However, with the current cheap yen, import costs have risen drastically. And while each company claims that it will "carry out the policy to increase imports," the prospect for profits is deteriorating. As for exports also, even with quantity restrictions, on a net yen basis, they will naturally increase, so that it will be very difficult to reduce the trade surplus.

In the automobile industry, Toyota Motor Corporation has worked out a plan to expand the amount of its imports to $300 billion in 1992, an increase of 250 percent over the amount in 1988. Nissan Motor Company, Ltd. also has a plan which sets as its goal the doubling of the company's actual imports from its fiscal year 1989 level by fiscal year 1992 (April 1992-March 1993).

In the electronics industry, Matsushita Electric Industrial Co., Ltd. has announced a plan to: double the amount of its imported parts and products from fiscal year 1989 levels (approximately $210 billion) by fiscal year 1993; have "zero growth" in exports; and, raise the overseas production ratio of overseas sales to 50 percent. Hitachi, Ltd. and Toshiba Corporation also have decided on policies for doubling their imports by fiscal year 1992.

None of these companies have changed their positions on firmly maintaining their policies, even since the advent of the recent cheap yen. According to Mr. Joichi Aoi, the president of Toshiba Corporation, Toshiba will "steadily carry out its plan to expand its overseas production, not to expand its exports, and to double its imports." Because trade friction cannot be solved just by macro-level policy adjustments among governments alone, industries have decided that "unless businesses themselves work out a stance for cooperating with the United States, even at the cost of their own profits to a certain extent, Japan will be isolated in international society," (Mr. Atsushi Muramatsu, the vice president of Nissan Motor Company).

However, in actuality, cost increases due to the cheap yen are placing pressure on management altogether. As for the "swollen export phenomenon," each company expresses its despair, saying that "it is troublesome, but it cannot be helped." It appears that, as an automobile manufacturer put it, "At present we can only wish that the yen will rise again".

MITI Statistics Show Imports Increased by 13.4 Percent in Fiscal Year 1989, Negative Figure in March

According to the confirmed export and reported import statistics for fiscal year 1989 made public by MITI on 12 April, the amount of dollar-based exports was $258.59 billion, an increase of 0.3 percent over the previous fiscal year. The amount of imports was $188.11 billion, an increase of 13.4 percent over the last fiscal year.

Also, according to March 1990 statistics announced at the same time, the amount of exports during that month was $24.61 billion, a decrease by 5.0 percent over the same month last year. Imports amounted to $15.99 billion. Partially because amounts are reduced when converted into dollars owing to the cheap yen, the value of imports dropped by 0.7 percent over the same month last year, and turned to negative figures for the first time in 38 months since January 1987.

[boxed item] **The Export Surplus and Its $60 Billion Dollar Pace—A Commentary by Mr. Hirohiko Okumura, Manager of the Economic Research Department of the Nomura Research Institute**

After adjustments for seasonal fluctuations were made, the export surplus was at its smallest last December, and with the exception of some particular factors it returned to normal in February and March of this year. At this rate, the export surplus—converted to an annual figure—will amount to $60 billion for the year.

Compared to the period of the high yen between the end of 1988 and the beginning of 1989, the dollar has risen by approximately 35 percent against the yen. Because of this, the pace of Japan's import expansion fell somewhat. On a quarterly basis, export expansion surpassed import expansion during the January to March period. In other words, the trend toward trade surplus reduction has slowed down.

There remains in the market the view that Japan's surplus will be further reduced, and this view is promoting the cheap yen. With an export surplus of the present scale, Japan's current account surplus can be maintained below two percent of the Gross National Product. From the standpoint also of exchange rate stability, the time has come for the government to loosen its import promotion measures and accompanying "PR."

Trade Statistics (Actual Record of Customs Clearance)

(Note: units are millions of U.S. dollars; percent increase over previous year in parentheses; "-" indicates decrease)

	Fiscal Year 1989			March 1990		
	Exports	Imports	Balance	Exports	Imports	Balance
Total	273,636	213,957	59,680	26,009	18,923	7,085
	(0.3)	(10.3)	(-24.3)	(-1.8)	(-4.8)	(7.2)
United States	92,112	49,363	42,749	8,312	4,542	3,769
	(-0.4)	(13.4)	(-12.7)	(-3.9)	(-2.2)	(-5.9)
EC	48,508	29,300	19,208	4,742	2,834	1,908
	(1.5)	(15.0)	(-13.9)	(3.9)	(-1.2)	(12.6)
Asia	81,174	64,115	17,059	7,655	5,351	2,304
	(1.8)	(7.3)	(-14.6)	(-3.6)	(-6.3)	(3.3)

Fiscal Year 1990 Trade Surplus Forecasts By Major Private Research Institutes (Units: 100 million)

Institute	Estimate of Average Yen Rate (yen per U.S. dollar)	Recently	End of Last Year	FY 1989's most recent forecast
Dai-Ichi Kangyo Bank	159.0	494	704	686
Fuji Research Institute	146.3	560	710	700
The Sumitomo Bank, Ltd.	153.0	763	907	700
Nomura Research Institute	150.0	703	806	689
Daiwa Research Institute	157.6	592	851	669

(Note: trade surplus based on international balance of payments; standard differs from exports less imports method [i.e. amount of export surplus])

* Series Looks at Uncertainty in Economy

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[2 Apr 90 p 23]

[Article by Nomura Research Institute Deputy Director Yoshio Suzuki: "The Triple Drop and the Economic Boom"]

[Text] *1. The boom which began with financial deregulation has reached its peak, and because asset preference has shifted from financial assets to real capital, both stocks and bonds have lost value. Because this tendency has been especially strong since the beginning of the year, the combined effect of it and the low value of the yen has led to increasing unrest in the financial markets. This lowering in the yen's value is due to the sudden increase in direct investment, the shrinkage in the current account surplus, and the increase in foreign interest rates.*

2. Because of the influence of the increase in interest rates and the anxiety about future investment, and the slowdown in consumption centered on luxury goods due to the "reverse asset effect," economic growth will slow down somewhat. However, the yen's fall will also cease because of the forecast for higher real interest rates in Japan and the end of the contraction in the current account surplus; and if a sense develops that interest rates have stopped increasing, then the economic boom will not collapse.

3. If the yen falls still further this year, prices and interest rates will rise and the impact on investment from the instability of stock prices will grow, and the possibility of a recession next year will increase.

Stock Prices Will Settle at Around 30,000 Yen

At the time of the high-yen slump in Japan's economy, the estimated earnings rate from plant and equipment investment fell, and consumption desires cooled. The funds supplied in abundance for the purpose of bringing about a recovery at first did not go into investment and consumption, but into assets such as bonds, stocks, and land; causing an increase in bond prices (a decrease in long-term interest rates,) an increase in stock prices (a decrease in the cost of equity financing, or raising funds through the issuing of new shares,) and an increase in land prices.

The balance of financial assets expanded suddenly due to these price increases, the activation of capital increases and bond issuances, and the increase in the money supply which accompanied financial deregulation; growing 52 percent from 2,120 trillion yen to 3,226 trillion yen in the three years form 1986 to 1988.

This growth in financial assets and the growth in land assets due to the increase in land prices stimulated the recovery of consumption and housing investment through the "asset effect." The decreases in long-term interest rates and the cost of equity financing stimulated the recovery in plant and equipment investment from the financial side.

The current economic boom which began with this recovery in December 1986 has already lasted more than three years, and the estimated earnings rate on plant and equipment investment has increased markedly; with that as background, since last autumn a number of large-scale plant and equipment investment projects have begun to be carried out. Because of the increases in employment and wages, the growth in personal consumption is also high. We have an autonomous expansion caused by the virtuous circle of investment and consumption.

Because this has happened, the funds which had gone into stocks and bonds are beginning to move into real capital, the expected earnings of which have increased, in the form of plant and equipment investment and so forth. In addition, financial policies have begun to modify financial deregulation in order to prevent the price increases which accompany the labor shortage and the tightness of supply and demand caused by the average growth rates of 5.1 percent from 1987 to 1989.

Because of these two developments, it was inevitable that sooner or later stock and bond prices would be corrected. With the opportunity afforded by the revision last year of the view that interest rates were moving lower, this correction has come strongly to the fore this year.

Market yields on bonds, which last year were at the 5.5 percent level, have recently increased to 7.2 percent. If we look at stock prices as the discounted present value of future expected earnings, it is only natural that stock prices would drop from 39,000 yen to 30,000 yen [the Nikkei average] because of this increase in interest rates

alone. Even if the expected earnings, supported by financial results, had not changed, a fall in stock prices to around 30,000 yen was a possibility; on the other hand, as long as expected financial results do not change, stock prices will have to settle at that level. During the "Izanagi boom" [1965-69] a precautionary increase in interest rates caused stock prices to fall once by nearly 20 percent.

Few Worries About Plant and Equipment Investment Either

Meanwhile, there are at least four reasons why U.S. dollar assets and West German mark assets are preferred to yen assets. These combine in a synergistic action with the low stock and bond prices and have accelerated the yen's fall.

First of all, U.S. and West German interest rates are even higher than the increased long-term market rates in Japan; the differences are about 1.5 percentage points. Moreover, West Germany, in order to curb the three inflationary factors of an increased money supply, increased demand, and a worsening balance of payments which will accompany the currency integration of East and West Germany, will have to tighten its money market somewhat. The level of interest rates will be high for some time, and so interest rates in the other European countries will probably also be high.

Because domestic demand in the U.S. is unexpectedly strong, there will be no further cuts in the U.S. discount rate; and if the growth rate begins to recover during the second half of this year or thereafter, an increase in that rate is a possibility.

Second, because of the influx of high quality labor from East Germany, and because East German economic reconstruction will increase the demand for capital goods and consumption goods, the West German economy will be active for quite some time, and the favorable tone of corporate results will continue. It is expected that stock prices will be high in order to withstand the high interest rates already noted.

Third, Japanese direct investments such as foreign corporate acquisitions, land purchases, and local factory construction are increasing rapidly, but this is physical investment, and unlike financial investment does not involve a hedge against the risks of foreign exchange (selling dollars on the futures market). Therefore, even a repatriation abroad of the same amount as the current account surplus would not cause the same downward pressure on the dollar as before. Because the ratio of direct investment to GNP rose to 1.6 percent last year, if this continues the current account surplus will nearly disappear this year.

Fourth, even though the yen is continuing to fall, the current account surplus has been falling rapidly since the second quarter of last year. Because of this, the opinion has come out that the yen's rise to the level of 120-130 to the dollar was an overshoot; and with the delayed effects of the yen's rise such as the start-up of factories built abroad, the current account surplus will shrink even at the current level of exchange rates. (Long-range predictions of the level of the yen's value have been revised downward.)

Because of the above factors, the three low values [of stock prices, bond prices, and the yen] should have a negative effect on the economy in at least four ways, and a positive effect in at least one way.

The first negative effect is that which the fall in stock prices has on personal consumption and housing investment through the so-called reverse asset effect. The second is the effect on plant and equipment investment of the suspension of equity financing which accompanied the fall in stock prices. The third is the impact of increased interest rates on expenditure in general. The fourth is the effect of the sense of anxiety accompanying the three low values in causing caution in economic activity. On the plus side, there is the effect of the low yen in augmenting real current accounts.

Evaluating the negative effects, first of all, the reverse asset effect has an impact on the consumption of luxury goods, typified by the "Cima phenomenon" [the high sales of a luxury car built by Nissan], but because household assets fell only 1.5 percent when stock prices dropped 20 percent, the impact on ordinary consumption and housing investment is slight.

Meanwhile, the suspension of equity financing does not seem to have been directly responsible for the cancellation and postponement of large-scale plant and equipment investment projects since last fall. As the recent high level of the money supply indicates, large corporations have accumulated an abundance of ready funds obtained from past equity financing and low-rate borrowing, as well as internal reserves.

Furthermore, the plant and equipment investment now in progress is centered around long-term investment such as new product development incorporating technological innovation, structural reconversion, rationalization and so on, and the mere fact that there is so much strategic investment on which companies stake their futures means that there is little worry of a collapse. If projects are postponed or reconsidered, it will probably be because of a sense of unease about the future of Japan's economy. There is a danger that the longer the unease in the market persists, the stronger will be the fourth negative factor mentioned above.

The effect of higher interest rates will probably appear little by little in a wide range of areas. Recently corporations have had an abundance of cash on hand, but the increase in interest rates has increased the opportunity cost of pulling these funds out of "zaitech" [high-tech financial manipulation] activities and investing them in the firms' principal business. In addition, the investments of companies highly dependent on borrowed

money and the purchases of new homes by individuals are highly susceptible to the influence of the increase in long term interest rates.

If we put together all of the above effects, the impact of the increase in interest rates and the sense of unease about the future on corporate investment and housing investment will gradually emerge, and the consumption of luxury goods will probably lose strength as well. While the instability of stock prices persists equity financing cannot be resumed, and at some point this will come to have an effect on plant and equipment investment. As a result, the growth rate for each quarter of 1990 will slow slightly compared to the same quarter of the previous year, and the average growth rate will probably fall to around four percent.

However, because the five percent growth of the past three years was a little too high, if a further contraction in demand can be avoided, this drop in the growth rate can be a positive factor in maintaining the boom.

Increase in Interest Rates Will Put Brakes on Yen's Fall

Whether or not the slowdown in growth accelerates and the economy falls into a recession next fiscal year depends on the value of the yen from now on, and the resulting movements of prices and the response of monetary policy.

Earlier I took up four immediate causes of the yen's low value, but among these are factors which will change this year.

The first of these is the difference between domestic and foreign interest rates; looking at nominal interest rates alone foreign rates are higher, but after this April it will be apparent to everyone that real interest rates, taking into account the difference in the rates of price increases, are higher in Japan than in the U.S. This year the effect of last year's consumption tax introduction [which occurred in April] will disappear, so comparing Japan's wholesale price increase of between zero and one percent and Japan's consumer price increase of less than two percent to the increase in U.S. prices of four to five percent, we can see that Japan's real interest rates are one to two percentage points higher. This will clearly be a factor causing the yen to increase.

It is not thought that the second factor, the flow of investment funds to Europe, will change for some time, but the accompanying increase in the values of European currencies (which have already risen more than 20 percent against the yen) and the demand for capital goods and consumption goods for assistance to Eastern Europe should increase Japanese exports to Europe, slowing the unexpected contraction of the current account surplus (the fourth factor); thus there is a chance it will put the brakes on the yen's fall.

To begin with, the recent sudden drop in the current account surplus occurred because of the delayed effects of the yen's rise such as the start-up of overseas production bases, and because of a number of temporary cyclical factors. Some of the latter are the J-curve effect accompanying the yen's fall, the disparity between the ideal economic conditions in Japan and the slow growth in the U.S., and the temporary increase in the price of imported oil; these will gradually disappear this year.

In addition, corporations are heeding the request of MITI [Ministry of International Trade and Industry] and making extreme efforts to promote imports and restrain exports, but from the point of view of corporate managers, how desirable is a rigid action which ignores the changes in profits which are accompanying the yen's fall? The secure surplus in the current account balance necessary for the capital exports and aid to developing countries involving technology transfers, and the export of high quality Japanese goods, are necessary for world economic development. Refuge from an emergency aside, it is best to abandon a rigid export-import strategy which goes against market principles.

Because of this increase in real interest rates and the end of the drop in the current account surplus, the yen will turn around and begin to strengthen during the first half of 1990, and if the expectation of higher future interest rates can be eradicated, the slowdown in growth should ensure price stability, and the economic expansion should continue for a long time.

If that does not occur and the fall of the yen, the increase in prices, the further increase in interest rates, and the instability of stock prices continue through this year, the chance of a recession next year increases. In that case, the yen's downward movement will put the brakes on direct investment through worsening profits, which may continue until the current account surplus begins to clearly expand again.

[3 Apr 90 p 27]

[Article by Sanwa Research Institute Managing Director Kazuaki Harada: "The Triple Drop and the Economic Boom"]

[Text] *1. The "triple drop" of the yen, stocks, and bonds following the general election was not stopped even by a major increase of one percentage point in the discount rate. The fall of the yen is caused by various economic and non-economic factors, and its roots are deep.*

2. The drop in stock prices gave rise to a capital loss of nearly 10 percent in household disposable income. Personal consumption will be quite susceptible to the "reverse asset effect."

3. One can identify four negative factors affecting plant and equipment investment from the aspect of procurement of funds, but because plant and equipment investment is firmly rooted, and because of the large relative importance of independent investment, the influence of the triple drop will be felt most strongly no earlier than this summer.

4. Because of the fears of inflation in the U.S., West Germany, and elsewhere, there is the danger of a simultaneous worldwide monetary contraction. There is no way of predicting the situation in the second half of fiscal 1990.

High Interest Rates in U.S. and Germany; Continuing Drop in Yen's Value

Why has the fall of the yen not stopped despite the triple drop following the general election, and especially the recent steep increase in the discount rate? We can conclude that both economic and non-economic factors are at work in the yen's current decline.

There are three such economic factors. The first is the high level of U.S. interest rates. As U.S. Federal Reserve Board chairman Greenspan made clear, most people believe that the U.S. economy has already pulled out of its worst stage. Therefore for the time being there is little hope for a decrease in U.S. interest rates. In addition, to the extent that the "fear of inflation" is becoming a catch phrase in the U.S., it is hard to believe that the U.S. authorities will make a serious effort to rectify the fall of the yen and the rise of the dollar.

The second factor is the rapid correction of the trade imbalance, as shown by the current account deficit recorded by Japan in January for the first time in six years. This was caused in part by seasonal factors, the increase in crude oil prices, and the J-curve effect of the yen's fall itself; factors which will not necessarily continue. However, the trend toward shrinking current account surpluses, connected with the argument (expressed in the book "The Sun Also Sets" by Bill Emmot) that Japan's economy has hit its peak, has the effect of increasing the downward pressure on the yen.

The third factor is the increase in the actual demand for selling dollars and buying yen which has accompanied the increase in recent years in direct investment abroad.

In addition to these economic factors, there are also important non-economic or political factors. The first of these is the assessment of other countries that in the midst of the upheavals taking place in the Soviet Union, Eastern Europe, and the European Community [EC] as a new post-Cold War framework for international politics is created, Japan alone is lacking in leadership in an international sense, and lacks a strategic response.

In particular, the intensification of friction between the U.S. and Japan connected with the Japan-U.S. Structural Impediments Initiative [SII] talks has thrown into relief the fact that in the midst of international change Japan, an economic power and creditor nation, resists reforming itself and always maintains a conservative posture; and this inhibits the desire of the market to buy yen.

The second non-economic factor is that in contrast to the political opacity of the yen, the "brilliance" of the West German mark, the major currency of Europe, is increasing; backed by the reunification of East and West Germany and the integration of the EC.

Recently, as a result of the East German general election, German unification has gathered momentum, and the integration of the East and West German marks has become a real problem. This is bound up with the anticipation of a major increase in interest rates caused by West German inflationary pressure, and is exerting a complex influence on the dollar, yen, and mark.

If we examine each factor in this way, we can understand how deep-rooted is the current drop in the yen's value. In addition, if we take the monetary policy stance of the Bank of Japan under Governor Mieno to be one of calming the "overall inflationary climate," then it is hard to believe that if the conditions of a turnaround to a rising yen and a peaking-out of land prices are not met, the high interest rates will be relaxed in the short term.

Probability That Stock Price Adjustment Will Occur in the Long Term

Looking at the situation this way, even if slumping stock prices recover somewhat, high interest rates will be a hindrance, and there seems to be a high probability that the correction phase will be postponed.

If so, if the current triple drop should continue unchanged, what kind of influence will it have on economic conditions?

First of all, personal consumption will unavoidably feel the impact of the reverse asset effect from the drop in stock prices. This slump in stock prices, a decline of 18.2 percent in the three months from the end of December 1989, and 27 March 1990, represents a capital loss of 114 trillion yen, or in other words 29.2 percent of nominal GNP.

The percentage of stocks owned by individuals was 19.9 percent at the end of fiscal year 1988, so we can calculate that the capital loss to households was 22.7 trillion yen. This figure corresponds to 8.6 percent of household disposable income. Considering that the losses from 1987's Black Monday (the worldwide crash in stock prices) were around five percent, one can see the large scale of the current drop in stock prices.

Calculating the real cost of this capital loss to households, and plugging it into a hypothetical life-cycle consumption function, we find that annual real consumption expenditure declines by approximately 0.9 percent.

It is true that as of early March of this year, the impact of low stock prices—the reverse asset effect—had not clearly shown up in the statistics for personal consumption or in spot demand. However, if the low stock prices continue for a long time, the reverse asset effect should appear to a considerable extent, centered on consumer durable goods and expensive merchandise. Furthermore, because the downward movement of the yen also puts pressure on consumer prices, even if the spring labor

offensive yields an increase in the wage base of nearly six percent, there is a significant chance that personal consumption, which since early last fall has been recovering from last spring's "consumption tax shock," will once again slow down. There is also the fear that the broad increase in interest rates on housing loans will put a damper on housing construction.

It is thought that this triple drop will have its greatest effect on plant and equipment investment, which has maintained double-digit growth the past three years, and which now comprises 24.5 percent of real GNP (as of October to December, 1989.) Let us examine the effect on plant and equipment investment from the aspect of procuring funds.

First of all, considering the high rate of corporate stock ownership in Japan (29.0 percent for business corporations,) the reverse asset effect of falling stock prices on corporate expenditure is not small.

Second, to the core of small and medium-sized companies which rely mainly on banks to procure the funds they need for plant and equipment investment (these companies account for approximately 45 percent of all such investment,) the broad increase in long-term interest rates will no doubt have a negative impact on plans for plant and equipment investment.

Third, for the time being the liquidity of large corporations as a whole is still high, so these firms will probably not feel the same impact as smaller firms for a while. However, the equity financing through which firms have raised funds in the market with convertible debentures and warrant bonds, backed by high stock prices, has come to an end both domestically and abroad; and the future of such financing has become unclear. Because of this, at some point future investment in plant and equipment will probably receive a "body blow" impact.

Fourth, we can expect that the low yen, the increase in raw material costs accompanying the rise in crude oil prices, and the increased cost of holding inventories (short-term real interest rates) resulting from the tight money market will come to have an indirect effect on plant and equipment investment.

It is true that we cannot expect these negative factors to arise immediately and drastically. There are three reasons for this.

The first reason is that current plant and equipment investment is as strong as ever. Many equipment-related companies have more than a one-year backlog of orders, and will be operating at full capacity for some time. With this kind of lasting fervor for plant and equipment investment, even if the financial environment worsens, it will not have an immediate effect on investment.

The second reason is that in contrast to the earlier investment boom periods, investment to increase capacity only accounts for a little more than one-third of current plant and equipment investment; there is diversification into investment in research and development and to increase information flow, investment in labor-saving methods to cope with the labor shortage, and investment for health and welfare. These types of investment are less susceptible to cost factors.

The third reason is the relationship between corporations' rates of profit and the cost of money; that is, looking at the "lever effect," we see that there is still plenty of leeway. In contrast to corporations' rate of return, before interest payments, on gross capital investment, which was 6.5 percent during the period from October to December of last year, the interest rate on interest-bearing debt was only 5.0 percent. Until the future cost of credit exceeds the expected rate of return, the incentive to invest in plant and equipment will continue to exist.

Fear of a Race to Raise Interest Rates Between Japan, the United States, Germany

Thinking about the problem in this way, it seems that aside from the case of some small and medium-sized firms, the effects of the triple drop will appear no earlier than this summer. However, by early autumn, the delayed increase in production capacity, combined with the negative aspects of the triple drop, should gradually begin to clamp down on investment.

In conclusion, the influence exerted on personal consumption, plant and equipment investment, and other forms of domestic demand by the fall of the yen, the rise in interest rates, and the fall in stock prices can certainly not be called insignificant.

There are also points of concern abroad. In the U.S., where as mentioned above the fear of inflation is increasing, the chance of a decrease in interest rates is remote; and there is concern about inflationary pressure from the integration of the East and West German marks, and about an increase in interest rates to tackle that inflationary pressure. In the worst of cases, it is feared that a race to raise interest rates between Japan, the U.S., and Germany will cause a simultaneous worldwide monetary contraction through the movements of exchange rates.

Under present circumstances, there is no specific remedy to deal with this triple disadvantage, but for Japan, at least, there is a pressing need to strengthen the G-7 multilateral system of cooperation centered on the yen, dollar, and mark; and to concentrate efforts on resolving the pending problems of the Japan-U.S. SII talks.

[4 Apr 90 p 27]

[Article by Tokyo University Professor Hiroshi Takeuchi: "The Triple Drop and the Economic Boom"]

[Text] *1. In the midst of the continuing great economic boom, the recent drops in stock prices and the value of the yen are identified as major causes of uncertainty.*

2. The prices of assets, beginning with stocks and land, have greatly increased over the past several years, producing huge capital gains. As a result, current asset prices can be said to be too high in relation to real value and earning power. It would be only natural if these asset prices fell as the extremely low interest rates and easy money market come to an end.

3. The question is what influence this will have on the "substantive economy" concerning the supply and demand for goods and services. The substantive economy still basically has a tendency toward rising prices. Even if there is a crash in stock prices, if there are no missteps in monetary policy, the economy probably will not lapse into a recession.

Land Prices, Stock Prices Detached From Reality

Recently the stock market has rapidly become unstable, and between that and the downward movement of the yen, the anxiety over the future of Japan's economy is increasing.

There are two immediate problems. One is the trend of the securities market, centered on stocks; the other is the course of the substantive economy having to do with the supply of and demand for goods and services.

It cannot be denied that until very recently Japanese stock prices as a whole were too high. It is difficult to say exactly what an appropriate level of stock prices would be, but considering price-earnings ratios, yields, and other corporate assets and their earning power, a Nikkei stock price average of 40,000 yen is undoubtedly too high. Of course, considering that stock prices reflect the present value of corporate assets and expectations about earning potential, any level of stock prices can be rationalized, but there must be a limit somewhere.

Even supposing that the [Nikkei] stock price average were to drop to 20,000 yen, that probably could not be called abnormally low.

In the first place, the very fact that over the past three years or so, the capital gain from the increase in the prices of stocks and other assets, including land, equalled or exceeded GNP can only be called abnormal. Because the real value of assets as "goods" did not increase that much during this period, this is called the "movement to a stock-dominated economy," and is not something that should be praised.

Naturally, there is an appropriate reason for why such an abnormal situation has come about. It is basically something that arose from what must be called a minimal level of interest rates, and an excess of funds. Behind this was the rise of the yen, supported by Japan's accumulated trade surpluses.

Therefore, if, along with the shrinkage of the trade surplus and the transformation to a declining yen, there is an end to the extremely liberal monetary policy, it would be only natural for the situation described above to abruptly reverse itself, and for a large capital loss to arise from a decline in asset values. If as a result, a proper balance is restored between stock values and flow values, it will definitely mean an improvement in the health of Japan's economy over the long term.

A crash in stock prices now would of course cause chaos in the entire economy, and would not be a welcome occurrence. There are many uncertain factors in the stock market, and looking at the market from outside there are movements which seem irrational, so I cannot say whether there will be a panic-like slump in stock prices, or on the contrary some degree of recovery with an increase in prices. However, I believe that for the time being there is a good chance that the downward trend will continue.

In that case, what will happen with land, another important asset? Not only is the sharp jump in land prices spreading to provincial cities, but the rate of increase in Tokyo land prices, which fell temporarily, is said to be rising again. There are probably those of the opinion that when stock prices fall, the funds which leave the stock market move into land, further intensifying the increase in land prices. However, I don't believe that is the case.

First of all, current land prices, at least in Tokyo, are already too high. It is said that considering land prices, there is a great deal of land which is not being used effectively, but conversely it is probably impossible to use all of Japan's land in a way that corresponds with today's land prices.

For example, if a plot of land has a going price of 100 million yen, at a long-term interest rate of six percent per annum, a rent of 6 million yen per year would have to be obtained; or if the landowner used the land himself, it would have to have a utility equal to that amount. However, it is not possible for all the land in Tokyo to be used in this way to correspond to current land prices.

A large proportion of present land prices already reflects not the current use value of the land, but expectations about the future increase in land prices, and we cannot say how long these expectations will continue.

Secondly, the interest rate increase and the general tightening of credit will necessarily decrease the funds moving into the purchase of land as an asset investment. Furthermore, if a capital loss arises from a slump in stock prices, then there will have to be fewer funds available to move into land.

It seems that because of the special characteristics of land in Japan, a crash in land prices could not occur, but I believe that they will not rise sharply again in the near future.

A second, more important problem is the trend of the substantive economy, and what effect the movements of the asset markets mentioned above will have on it.

We can say that the fundamental condition of the substantive economy is as favorable as ever. On the

domestic demand side both consumption and investment are strong. Because personal consumption has not yet reached the point of saturation, it should increase further.

Corporate Plant and Equipment Investment Will Slow Down Somewhat

In order to respond to the recent sudden wave of technological innovation, corporate plant and equipment investment is being actively carried out in the areas of research and development, product creation, and the improvement of production facilities. In the area of social capital [infrastructure, e.g.] as well, Japan is being urged by the U.S. to greatly increase the amount of its public investment, but even without foreign pressure there are many things which ought to be done if they are financially possible.

On the other hand, the fact that exports are not increasing is, needless to say, due to the restrictive policies at home and abroad, and not to a loss of competitiveness; the demand for Japanese products is potentially large.

On the supply side, recently there have been indications of an extreme labor shortage in some sectors, but we cannot go so far as to call this a bottleneck to economic growth.

Thus if we look at the substantive economy in this way, it seems that the favorable conditions are continuing, and that prosperity will continue, but will the instability in the asset markets discussed above not have a major impact? In an extreme case, is it not possible that a crash in the stock market and the resulting panic could set off a great depression?

The relationship between the asset markets and the substantive economy over the past few years offers some suggestions about the future relationship between those two. About three years ago, when there was the danger of a recession caused by the high yen, funds flowed only into the asset markets; and it was feared that an effective demand shortage might arise in the substantive economy. At that time, there were fears that the extremely easy credit would extend to the goods market, causing inflation.

In reality, each of these worries turned out to be needless, and the creation of a giant capital gain stimulated investment and consumption through the asset effect, without causing inflation, continuing a steady economic expansion.

If we look at the reverse situation, it does not seem that the generation of a capital loss which accompanies the fall in stock prices will directly bring about an abrupt decrease in the effective demand for goods and services, and hence deflation. Of course, the negative asset effect should have an influence on investment and consumption. In particular, it can be expected that the increase in the cost of capital caused by increasing interest rates will have some degree of influence on corporate investment in plant and equipment.

However, as far as consumption demand is concerned, recently the personal savings rate has not been falling at all, so we can conclude that the asset effect from the capital gain was also not that large. Therefore, the negative asset effect from the capital loss should not be all that large either. For the time being there is no possibility of a big increase in unemployment, and because a significant increase is expected in basic wage rates, the growth in labor income should support consumption demand.

Thus if the excessive increase in interest rates and the uniform monetary contraction do not go too far, even if there is instability in the stock market, although the growth rate may drop somewhat, there probably will not be a full-scale recession.

Yen Was Too High; Now in Correction Phase

Concerning an additional cause of instability, the fall of the yen, can we really say that from the standpoint of purchasing power, an exchange rate of, for example, 160 yen to the dollar is truly a "low yen?" While it is clear that Japanese prices are high compared to those of other countries, whether we call it high Japanese prices or an excessive value of the yen does not matter because they are the two sides of the same coin. We can say that in relation to the true capacity of the Japanese economy, the exchange rate up until now overvalued the yen.

Consequently, a stabilizing of the exchange rate at a somewhat lower level of the yen, if it does not result in a rapid increase in exports and the trade surplus to former levels, will be a factor in stabilizing the substantive economy in the long run.

An additional problem at present is the Japan-U.S. SII talks. The demands the American side is making of Japan include some that will benefit Japanese consumers, and in turn improve the health of Japan's economic structure; but also some which are unreasonable.

However, fundamentally, now that Japan's economy has grown to such a scale, and its globalization is so far advanced, the rhythm of Japan's economic growth and the rules of economic conduct must be brought into line with the rest of the world. If we accept that Japan cannot have the power to press its rhythms and rules on the world, then if Japan does not get in tune with the world, Japan will be isolated internationally, which would lead to her ruin.

It is true that this adjustment will probably have a surprisingly large impact on the structure of Japan's substantive economy. Some confusion is unavoidable in the short run. However, this adjustment is a necessary first step in guaranteeing a stable position for Japan in the world economy in the long run.

Editorial Views Private Research Systems

OW1705230090 Tokyo THE JAPAN TIMES in English 15 May 90 p 20—FOR OFFICIAL USE ONLY

[Editorial: "Research as Industrial Policy"]

[Text] Many American and European industrial experts credit Japanese management practices on the factory floor with contributing to this nation's postwar manufacturing success. It is surprising therefore that foreign companies seem hesitant to join a proposed project to be funded mainly by Japan to increase factory automation technology and industrial plant efficiency. The plan, centering on the Intelligent Manufacturing System research program, is international in scope and would develop new production technologies and standards.

The proposal is backed by the Ministry of International Trade and Industry [MITI], which gained some notoriety abroad in the early 1980's when it originated the fifth-generation computer project under the auspices of the Institute for New Generation Computer Technology. A still earlier MITI research project had been perceived by many as a major contribution to Japan's success in memory semiconductors.

Observers in the United States and Europe harbored fears that the fifth-generation computer project would allow Japanese firms to surge ahead in computers, as they had in semiconductors. Today some of the reasons that foreign industrial experts have for advising against participation in the Intelligent Manufacturing System program appear frankly ideological. Some experts seem to fear that the scheme would permit Japanese companies to obtain a peek—or more—at foreign research projects.

Officially, the U.S. Government remains opposed to anything resembling an "industrial policy," and that, of course, is what the factory-improvement project is all about. The administration of President George Bush continues to argue that U.S. companies should fund their own commercially oriented research. MITI, however, clearly does not think that represents the most efficient way to undertake research and development projects, especially when issues of technical standardization need to be resolved.

In fact, MITI has made strenuous efforts recently to open the doors of Japanese research projects—admittedly partly because of U.S. criticism of the perceived closed nature of this country's corporate R&D. Yet few American companies seem moving quickly to take advantage of the new opportunities. Is it that U.S. and European corporations are slow to show interest because they are suspicious? Yet when America's General Motors Corp. sought new expertise in auto manufacturing robotics, it was to Japanese companies that it turned. Foreign companies also have been slow to avail themselves of the research opportunities available through the Key Technology Center sponsored by MITI and the Ministry of Posts and Telecommunications.

This country actually lacks—with a few minor exceptions—large-scale public-sector research facilities like America's National Institutes of Health, Jet Propulsion Laboratory or Lawrence Livermore Laboratory. The U.S. conducts considerably more public-sector research than Japan since Washington underwrites roughly half of all American R&D. By contrast, the government here funds less than one quarter of Japanese research. And yet American critics charge that the Japanese approach relies too heavily on government intervention where private companies should take the lead. The argument seems inconsistent.

While the debate continues, major Japanese electronics firms are establishing research facilities in the U.S. to pursue advances in high-definition television (HDTV) technology, a consumer electronics product that the United States, after prolonged debate, has decided not to assist with public funds.

That may have been a shortsighted decision. Without the type of assistance provided to America's aerospace industry by Department of Defense and National Aeronautics and Space Administration contracts, U.S. electronics companies may never become contenders in HDTV technology. Critics charge that also will mean lost opportunities in such areas as computer screen displays, digital-signal processing and optoelectronics.

This country's first large-scale commercial technology project helped develop solid-state electronics for color television in the 1960's. It was deemed appropriate because Japan then lagged in that field. Today when, partly due to developments here, U.S. manufacturers no longer are a major force in TV knowhow, Washington declines to help them prepare for the HDTV future. Is the same thing happening in the case of comprehensive manufacturing technology?

Council Plans Long-Term Economic Report

OW2405232390 Tokyo THE DAILY YOMIURI in English 22 May 90 p 8—FOR OFFICIAL USE ONLY

[Text] Economic Council, an advisory body to Prime Minister Toshiki Kaifu, will prepare a long-term economic policy report proposing a direction for the nation's economy over the next 20 years with "globalization" as an underlying concept, council officials said Monday. The 20-year economic policy report, tentatively titled "Japan in an Age of Globalization," is designed to provide basic guidelines for a full-dress remodeling of the national economy up to 2010, officials said.

The council, headed by Gaishi Hiraiwan, board chairman of Tokyo Electric Power Co., will establish a special committee in early July following a final report in late June from the Japan-U.S. Structural Impediments Initiative talks.

The committee drawing up the report will most likely be headed by Isamu Miyazaki, former official at the Economic Planning Agency and currently executive director of the Daiwa Institute of Research, the research arm of Daiwa Securities Co. The report is scheduled to be completed in June next year, said council officials. They said the remodeling concept envisaged for the economy will be distilled from the concept of globalization of the world economies, or the awareness of the globe as a single entity—a concept that the officials said goes beyond what is usually implied by the notion of "internationalization."

The Report Committee will comprise four subcommittees dealing with social overhead capital, the international economy, people's livelihood and industrial society.

The Subcommittee on Social Overhead Capital will map out blueprints for expanding the nation's public works projects over the next 20 years.

The International Economy Subcommittee will attempt to define an appropriate level for Japan's trade surplus in the current-account balance of international payments.

The people's livelihood panel will try to find ways for Japanese to enjoy the fruits of Japan's status of an "advanced leisure nation."

The Subcommittee on Industrial Society will analyze the wide range of problems faced by an information oriented society and confront the dilemmas of environmental conservation and energy supplies.

The report is the third of its kind to be mapped out since the end of World War II, following two 20-year economic policy reports issued in 1960 and 1982.

The 1960 report titled "A Long-Term Perspective of the Japanese Economy," covered the period from 1960 to 1980 and laid the foundation for the "national income-doubling project" proposed by the administration of then-Prime Minister Hayato Ikeda.

The second 20-year report was issued in July 1982 with the title of "Japan in the Year 2000" with "internationalization" as a guiding concept. This report served as important material for the "Maekawa Report" compiled later the same year and the 1987 "New Maekawa Report," both of which called for effective steps to open up the domestic market to foreign competition.

Article Urges Business Management Reform

OW2505101090 Tokyo ASAHI EVENING NEWS in English 22 May 90 p 6—FOR OFFICIAL USE ONLY

["Point of View" column; article by Yoji Ishikawa, ASAHI SHIMBUN senior writer: "Reforming Japanese Management—Matching Business Practices to Local Needs"]

[Text] The globalization of Japanese business management is entering a new phase in which overseas operations are necessary to secure a firm hold in a local economy. This comes with the Japanese economy under increasing pressure from American trade partners and in the light of the rapidly changing international climate around Japan, including the emerging market opportunities in Europe with the rapid progress in planned German unification, and the expansion of the Asian economic region.

The Committee on the Internationalization of Japanese Businesses of the Japan Committee for Economic Development recently announced the results of a survey it conducted among its member corporations as well as its proposal titled "Globalizing Japanese Business Management as We Move Toward the 21st Century." The survey revealed that the rate of overseas production by Japanese manufacturers, which is currently stable at 11.0 percent, would increase in five years by nearly one and a half times to 16.3 percent.

At present, the mode of operation of Japanese businesses is not necessarily welcomed by locally employed white-collar workers and local communities. This is a problem common to Japanese interests operating both in advanced and developing nations. Accordingly, the committee, led by Tadahiro Sekimoto, president of Nippon Electric Corp., suggested in the survey report that to promote further internationalization Japanese businesses need to reform their operations and establish new management systems befitting a global community in the 21st century.

One advantage of the Japanese management policy is its human resource-oriented concept, which considers workers as the most important corporate asset. But, this unique idea may be hard to understand for local employees.

The committee suggests several countermeasures to prevent this. First, Japanese businesses should develop a more "transparent management system" that is free of typically Japanese conventions and easy to understand for local employees. Second, the system should be designed to take into account the culture and values of a given society so as to incorporate merits of the local system into Japanese-style operations. The report also emphasizes the importance of nurturing talent that can operate globally and the necessity of contributing to the development of local communities.

In the past few years, Japanese industries, especially major car and electrical machinery manufacturers, have increasingly shifted manufacturing operations overseas. Foreign manfacturing started out as a means to ease trade frictions. However, it is now regarded more as a new strategy of making the goods where the demand is. This change reflects a different look by business leaders at globalization and the borderlessness of business operations.

Some Japanese companies have adopted "a multiple headquarters system," by which part of the headquarters function in Japan is transferred abroad. Companies such as Honda Motor and Toshiba have already set up regional headquarters in the United States and Europe. Many others are following suit to localize production and sales activities. Recently, Komatsu Ltd. established its European headquarters in the suburbs of Brussels, the home of the EC headquarters. This is just one example of a recent rush of Japanese businesses flocking to Europe in a bid to gain firm footing in time for the economic integration of the EC in 1992.

Honda Motor, which pioneered the globalization of Japanese business management, is consolidating its international supplementary structure under which the company was able to import American-made Honda models into Japan. Senior Managing Director Nobuhiko Kawamoto said that each country should engage in manufacturing the types of cars suitable for local needs because, for example, cars that Americans want are different from cars that Japanese favor. He also suggested making the best use of such separatism by exchanging cars between countries to provide a variety of selection. Honda intends to promote not only local production but also the shifting of R&D capability for the purpose of technological transfer.

Japanese employees in charge of international operations are often heard saying that the Japanese are less capable of internationalizing their minds. Such remarks reveal remorse stemming from an acute realization of how hard it is to get along with local people. For Japanese businessmen it seems very hard to work with foreign colleagues who face them with different values.

The committee survey report concluded by warning that internationalization will soon reach its limits if the current operations continue unchanged. Japanese businesses need to reform their management policies in order to take another step in the march toward bona-fide globalization.

Immigration Law Amendment Said To Create Panic

OW2605213690 Tokyo THE DAILY YOMIURI in English 23 May 90 p 3—FOR OFFICIAL USE ONLY

[Article by staff writer Shigefumi Takasuka on the amendment to the Immigration Control Law: "Law Amendment Provokes Panic"—part one of two]

[Text] Illegal foreign workers in Japan appear to be panicked about a controversial amendment to the Immigration Control Law and its consequences as the deadline looms for imposition on June 1. With the deadline approaching, illegal workers are rushing to get out of Japan to avoid what they see as inevitable jail sentences after the onset of June.

Their employers are also afraid of punishment under the new amendment. Many of them have called THE DAILY YOMIURI, afraid that they might have to close their factories because their foreign employees are packing for home. Many, however, are unaware that the penalties apply to employers who hire illegal workers entering Japan after June 1.

One of the sources of panic is shoddy reporting about the amendment in the media, said Mitsuyoshi Harada, secretary general of the Association for Solidarity With Foreign Migrant Workers (kalabaw-no-kai), a Yokohama group that supports foreigners working in Japan without proper visas.

Intentional Deception?

"We have reason to believe that the Justice Ministry and the Immigration Bureau intentionally released incomplete information," Harada said. "The media seem to have been confused by that or to have purposely manipulated this misleading information. As a result, foreign workers and their employers are greatly confused."

Akio Noda, a staff member at the association, said that many think the crucial point of the amendment is the proposed jail terms or fines for people hiring or acting as brokers of illegal foreign workers. According to the amendment, the penalties include imprisonment for up to three years or fines of up to Y2 million.

However, Noda said the penalties apply only to people who hire illegal foreign workers entering Japan after June 1. The amendment does not apply to current employers or illegal foreign workers in Japan before June. 1.

"Nothing will change for foreign workers already in Japan without proper visas," he said. "The amendment is not a new law and it will not replace the present law. English-language newspapers often call it the 'new' Immigration Law but that is misleading. It should be called an amendment."

Lack of Understanding

The association has received hundreds of telephone inquiries about the amendment and has found that foreign workers and their employers did not fully understand what penalties were stipulated under the present law, said Noda. Under the present law, foreigners working in Japan without proper visas can be imprisoned for up to three years or fined up to Y300,000, he said. However, Noda said the law has not been strictly enforced up to now and nobody has been imprisoned for violation of the Immigration Control Law. He says only a few people are ever fined and "99.99 percent of them were deported."

Harada said that while the Justice Ministry and the Immigration Bureau have warned employers of illegal foreign workers that they can be punished under the present law for violations of the Penal Code, ony a few cases are ever reported.

Harada accused the authorities of not fully explaining the cryptic "Article 11 of the Additional Clause" of the amendment, which says in essence that the amendment only applies to employers of foreign workers entering Japan after June 1, knowing that they do not have proper visas.

Managers of small- and medium-sized companies often call the association, Harada says, and stress that they rely on ilegal foriegn workers who work hard at unskilled jobs scorned by the Japanese. Harada said that limiting this large labor force in one fell swoop with the new amendment would be devastating, especially for small- and medium-sized companies.

Large Japanese companies are moving into foreign countries, especially in Asia, and cutting trees and building factories, Harada said. In the process, the agricultural infrastructure is being decimated. Farmers lose their livelihood and have no choice but to go abroad as migrant workers to earn money, he said. Japan shold be responsible and accept these workers that it has displaced, Harada said.

Since unemployment rates are incredibly high in Third World countries, people there will take grat risks to get work in the United States or Japan, Noda said. If immigration laws are tightened, foreign workers may be forced to turn to criminal organizations for work, he said.

Going Underground

"What I am concerned is that more foreign workers may go underground after June 1," Noda said. "They may be trapped into forced labor for cheap wages. Right now, foreign workers in trouble can call us for help but if they go underground completely and cannot call us, even we will not be able to know what is happening to them. That is why we believe that they should be allowed to hold unskilled jobs legally."

The Kalabaw-no-kai, established in 1987 to help illega! workers from the Philippines in Yokohama, now receives 20 to 30 telephone inquiries a day from Bangladeshi, Sri Lankan, Pakistani, Nepalese and African workers all over the Kanto district.

Article Views Immigration Law Amendment

OW2605234690 Tokyo THE DAILY YOMIURI in English 24 May 90 p 3 —FOR OFFICIAL USE ONLY

(Article by staff writer Shigefumi Takasuka on the amendment to the Immigration Control Law: "Setting the Record Straight"—part two of two)

[Text] The Immigration Control Law has two distinct procedures to deal with illegal foreign workers, and they should not be confused, said Yukio Machida, director of the enforcement Division of the Immigration bureau. One is deportation, which is carried out by the bureau. This is distinct from legal measures and penalties taken by police, prosecutors and courts, he said, emphasizing that his remarks represent the bureau's view and not the police or any other enforcement organization.

Since the bureau is in the position to supervise enforcement of the Immigration control Law, it is charged with explaining the revised law to police and other enforcement organization. However, it is up to them to decide how strictly to enforce penal provisions of the revised law, Machida said.

He reiterated that the June 1 amendment does not affect the present law basically concerning foreigners working illegally in Japan. They can be arrested, fined up to Y300,000 or imprisoned for up to three years even under the present law, and this will not change after the amendment to the law goes into effect on June 1.]

In theory, these provisions of the law can be applied to every illegal foreign worker in Japan, but in practice many of them are not punished, he admitted. "When we (the Immigration Bureau) arrest illegal foreign workers, we report to police only those who have made serious offenses for further punishment. But they are exceptions."

Though prosecutors have demanded imprisonment for some of these workers, he does not know whether they were actually imprisoned. He believes that many were given suspended sentences and later deported, though he did not have statistics at hand.

He stressed that it is an issue very complicated to explain because those foreigners who are actually punished have often violated other laws in addition to overstaying their visas and working illegally. "We want foreigners just working illegally in Japan only to go home," Machida said. "But we can never tolerate those who are not only working illegally but also helping others do so, or who are exploiting other foreign workers or violating their human rights. Some of them forge documents to avoid our enforcement. We ask police to punish these people severely."

Machida emphasized that the bureau has not suggested to law enforcement organizations that all illegal foreign workers and their employers be punished after June 1. However, he said, how the agencies will interpret it is their own business.

The Justice Ministry and the bureau are not trying to obscure the meaning of Article 21 of the "Additional Clause" of the revised law, as some citizen groups have accused them of doing, he said. Indeed, he added, he himself has explained it at the Diet and elsewhere.

He agreed that Article 21 says the amendment applies only to people who hire foreigners entering Japan after June 1, knowing that they do not have proper visas. However, he emphasized, even the present Immigration Control Law and the Penal Code give authorities the power to punish employers of illegal foreign workers for

ading and abetting, and instigating. He added that some people have been actually prosecuted on these charges.

From the viewpoint of the bureau, which planned the amendment, it is intended to punish vicious brokers and employers that treat illegal foreign workers harshly because, if nothing is done, Japan may be internationally criticized for failing to exert adequate oversight, he said.

Police and prosecutorial offices around the country have been informed of this, Machida said.

HELP: Nothing Will Change

The Immigration Bureau should assume more responsibility for street-level enforcement of the Immigration Control Law when the amendment takes effect June 1, said Mizuho Matsuda, director of HELP, a Shinjuku-ku, Tokyo, shelter for Asian women.

Matsuda said police and other organizations entrusted with enforcement of the law base their actions on the bureau's instructions and directions. "Of course, some control may be necessary for unskilled workers in Japan," she added. "However, Japanese tend to think just that it is wrong to violate the law, and do not try to understand the problem behind it, or to imagine why these people have to work in Japan illegally."

The migration of workers to advanced countries is already an international trend which nobody can stop, and the Japanese Government should immediately do something to protect at least the human rights of those illegal foreign workers already in Japan, Matsuda said.

Employers of illegal foreign workers are calling HELP and complaining that the amendment is going to bankrupt their companies because reports about it scared their foreign employees and made them flee Japan, she said. She said that she told these businessmen to talk with Diet members and local assembly members, and ask them to change the law. She hopes that such pressure by Japanese employers can improve the lot of foreign migrant workers.

HELP also receives many telephone inquiries from foreign women working here illegally who have been fired or told by their employers to leave Japan before the amendment goes into effect, she said. Matsuda tells these women to ask their employers to call HELP, which will explain Article 21 of the Additional Clause of the revised law to them.

Though she believes that nothing will change for foreign women working illegally in Japan even after June 1, she advises them to be careful and take low profiles for at least six months because authorities will seek to arrest some of them as "a deterrent to others" after the amendment goes into effect.

Even if they are prostitutes, they should not worry too much because, as far as she knows, no foreign woman has been imprisoned just on that charge, although many have been deported, Matsuda said. However, she said that women acting as procurers or involved with illegal drugs have been severely punished.

Matsuda added that prostitution problems faced by Asian women in Japan are caused by Japanese racism toward them, and tolerance of the Japanese society for the "sex industry."

HELP and other citizen groups supporting undocumented foreign workers in Japan will have a meeting at 1 p.m. Sunday in Kanda, Tokyo, to arrange a protest to the revised Immigration Control Law, she said. Those groups will also sponsor a "hotline" in the second week of June to answer questions about the revised law.

Though HELP specializes in helping women, it accepts telephone inquiries from illegal male foreign workers as well, Matsuda added. HELP's telephone number is 03 (368) 8855.

ASAHI SHIMBUN Views Rimpac Exercise 90

OW0306093090 Tokyo ASAHI SHIMBUN in Japanese 18 May 90 Morning Edition p 4—FOR OFFICIAL USE ONLY

[By reporter Hiroyuki Tani: "Rimpac at Turning Point; MSDF's Weight Increases"]

[Text] A joint exercise by nations on the Pacific rim (Rimpac 90), staged over the central Pacific seas around Hawaii, came to an end in mid-May, even though a live missile fire program and a post-exercise study session have yet to be conducted. This is the 12th exercise in the 20 years since the first Rimpac exercise was conducted.

The Rimpac, as intended by the U.S. strategy, has been effective in displaying the unity of the Western nations on the Pacific rim against the Soviet Navy, which has built up its forces in the Far East. This year, with the ROK participating in the exercise for the first time, the exercise was an occasion to impress the world with strengthened unity amongst Japan, the United States, and the ROK. With cuts in U.S. military expenditure, however, the exercise was also an occasion when the U.S. fleet showed that it had to change its original plan and reduce participation in terms of scale of forces and length of exercise time.

This may mean that with East-West tensions being eased at great speed, the Rimpac too is standing at a turning point.

Scenario

The central part of the Rimpac was the usual confrontation operation, this time conducted over a period of two weeks from 27 April. The scenario was that a task force of the United States, led by the carrier Independence (60,000 tons) and joined by a Japan Marine Self-Defense Force [MSDF] "X force," advances about 4,000 kilometers from San Diego, the U.S. west coast, toward Hawaii. Hawaii is assumed to be occupied by an opposing force and the U.S. task force recaptures Hawaii in the end. The

"X force" was composed of 22 vessels including elements of the MSDF's escort-destroyer force called "New Eight & Eight Fleet" (eight ships plus eight ship-borne helicopters).

The opposing "U Force" was made up of 17 ships, including a part of the U.S. fleet led by the battleship Missouri (45,000 tons) and vessels from Canada, Australia, and the ROK. Live fire using missiles and others had been taken out of the exercise, but antisubmarine operations, sea-surface battles, antiaircraft battles, and electronic warfare such as operations for enemy detection and radar obstruction were carried out as if in a real war. There were even amphibious landing operations by the U.S. Marine Corps.

Japan Which Is an Essental Part

The Rimpac began in 1971 toward the end of the Vietnam War, and was initially participated in by four nations: the United States, Canada, Australia, and New Zealand. Since then, it has expanded in scale for the purpose of countering the speedy reinforcement of the Soviet naval forces in the 1970s and also securing marine passageways.

Japan came to actively cooperate in this exercise later on. In 1978, Japan adopted the "Guidelines for Japan-U.S. Defense Cooperation" and in 1981 (then) Prime Minister Suzuki announced a policy to "defend the 1,000-sea lanes." These policies provided motivation [to the MSDF] toward participating in the exercise. Japan first participated in the exercise in 1980 and this year's is the sixth time it has participated. The MSDF, as a very faithful "partner" of the U.S. Navy, has put in efforts to learn the knowhow needed to operate together with U.S. carriers and to improve "interoperability" with U.S. forces. The MSDF has devoted itself to helping U.S. forces maintain their frontal development strategy.

Since the first participation in the exercise, there have been constant voices of criticism, saying: "The participation in a multinational exercise constitutes an act of exercising collective self-defense rights, which is banned under the Constitution." More recently, it is felt that the issue has settled down and the exercise has become a fait accompli.

In fact, since 1986 or since the exercise before last, the MSDF has become the second largest contributer after the U.S. Navy, and now the situation is such that it is impossible to think of a Rimpac without the MSDF. Taking the recent exercise as an example, the U.S. Navy initially planned to hold the exercise in March, but agreed to change the plan when Japan pointed out problems in participating in the exercise before the new fiscal year's budget was adopted. As a result of the plan change, the United Kingdom, which initially wanted to take part in the exercise for the second time since 1986, had to give up on its plan to participate.

Therein also may be the reason why the U.S. people like Vice Admiral Dougherty, commander of the U.S. Third Fleet which hosted the Rimpac, highly commended the the actions of the MSDF escort-destroyers, P3C antisubmarine reconnaisance planes, and helicopters during the exercise.

The MSDF, on its part, apparently used the Rimpac for leverage in getting new equipment and instruments comparable to those owned by the U.S. forces. Aegis is one of them. At the recent exercise, for instance, some of the escort-destroyers did not have a link system, which enables them to transmit or receive information on the locations of vessels and aircraft. Regarding this, Rear Admiral Yujiro Koga, commander of the MSDF-dispatched force, said: "We would like to install the equipment if we can economically afford it."

First Participation of the ROK

What drew particular attention this time is that the ROK participated in the exercise, sending two frigates of 1,600-ton class. The Defense Department of the country explained: "This is so we are able to secure safety for major marine passageways in case of contingencies, and to improve joint operation capabilties among the rim nations."

It appears that, with plans for the withdrawal of U.S. forces in Korea coming to be a reality and the operational command for the U.S.-ROK joint forces due to be taken over by ROK forces from U.S. forces in two to three years' time, the ROK is trying to use the exercise as a reason to upgrade its naval force. There are some who view this [the ROK Navy's participation in the exercise] as "a revelation of Navy desires to transform itself into a Navy that can go out into the open sea."

This is the first time that the MSDF and the ROK Navy have ever participated in a same exercise, but the Marine Staff Office of the Defense Agency insisted that "all Japan did was participate in a joint exercise with the United States."

Captain Han Sang ki, captain of the ROK frigate Masan which partook in the exercise, too insisted emphatically: "Japan exercised with the United States, while the ROK exercised with the United States, Canada, and Australia." Indeed, three countries—Japan, the United States, and the ROK— emphasized, as though in the same voice, that Japan and the ROK never did any joint exercise. There was the delicate situation of Japan with regard to the exercise. But an additional reason for such statements appears to come from the fact that the people in Korea, sore about Japan's colonial rule of the country, are strongly repelled to the idea of having a joint exercise with Japan.

Nevertheless, even when the annual joint U.S.-ROK exercises code-named "Team Spirit" are conducted, major units of the participating U.S. forces are deployed from Japan and the U.S. military bases in Japan are used as relay and supply stations. On some occasions, the SDF has conducted exercises by itself or joint exercises with

U.S. forces at the time when joint exercises are conducted in Korea. Reportedly, to stop terrorist actions during the Seoul Olympic Games in the fall of 1988, joint operational exercises were actually conducted with the participation of Japan, the United States, and the ROK. For the U.S. forces, there are no borderlines between Japan and the ROK on the maps used in operation. As if reflecting this concept, some people have pointed out as follows: Japan and the ROk have already "established allied relations without a treaty."

Under such circumstances, the ROK's first participation in the Rimpac exercises further intensified the impression that Japan, the United States, and the ROK now cooperate with each other in the military field.

Under Disarmament

The United States has moved rapidly to improve its relations with the Soviet Union and tried to reduce its defense spending because of an enormous financial deficit. All such U.S. moves have also been reflected in the Rimpac.

On 15 May, Vice Admiral Dougherty disclosed at a joint news conference held on the Barowood [name as published], the flag ship of the Third Fleet, that "due to budget cuts, the number of American ships participating in the recent Rimpac has been reduced by three from the original plan and the exercise schedules have also been shortened by three days."

The reduction of national defense expenditures seems to have been decided rather more rapidly than people connected with the Navy expected. The Department of Defense just announced on 11 May that the Navy would be reduced by two aircraft carriers and that the number of warships will be reduced from 549 at the present to 488 by 1997. Fluctuations, including a move to reduce U.S. forces stationed in Japan, have begun to be noted in the front deployment strategy of U.S. forces and also in its Navy's oceanic strategy as mapped out in the "Strategic Framework in the Asian-Pacific Region" (the East Asian Strategic Program) of the Department of Defense.

According to the U.S. Forces Pacific Command (in Hawaii), the number of exercises conducted by U.S. forces, including the Rimpac, is expected to be reduced from 99 last year to 84 this year.

While the exercise was conducted, Soviet ships for collecting intelligence were confirmed to be monitoring in the seas off the coasts of San Diego or around the Hawaiian islands. However, it seems that the threat from the Soviet ships was the least serious compared to past Rimpac exercises.

Under such circumstances, it is expected that the participating nations will have arguments on various issues, including questions as to whether or not the usual "common defense" concept should be maintained just as the same as in the past and whether or not the exercises should be continued in the same way as the Rimpac has been conducted in the past.

United States

* Obstacles Remain in U.S. Trade Negotiations

902A0161A Tokyo AERA in Japanese
17 Apr 90 p 62—FOR OFFICIAL USE ONLY

["Economy" column by commentator Fusao Kurita: "The Japan That Says 'No'"]

[Text] "There are those saying Japan gave in to external pressure and that we were too accommodating...."

This surprising question was put to Prime Minister Kaifu at a press conference after the meeting with the United States concerning the Structural Impediments Initiative [SII] talks. The question reflects the vested interests tenaciously held by politicians and big business. From the consumer's point of view, maybe the question should have been asked if we went far enough in agreeing to the American plan.

Not Negotiations

The purpose off the SII meeting was neither to negotiate nor confer. The theme of the meeting centered on the voluntary removal of some of the obstacles which block free trade between the United States and Japan.

The Japanese side was angered that the talks took on the aura of decisive negotiations. While Japan reluctantly listened to the American demands with practiced composure, a dominant and persistent "no" was our only response despite the unyielding persistence of the United States. A look at the reports issued during the meeting bore this out. The United States placed great importance on the issues of the Japanese Large-scale Retail Store Law and the increase of investment in the public sector, but the reports of the meeting were open to a variety of interpretations. The power to grant exceptions to the retail store law resides with MITI [Ministry of International Trade and Industry], while the Ministry of Finance maintains a right to determine the level of public investment.

The Japanese bureaucracy holds the opposite view taken by the Americans. It goes without saying that we not only protect our bureaucratic structure, but are very successful at widening government authority.

The rights of business with its vested interests have come away unscathed. Despite the predominating discussion on the retail store law at this last SII meeting, the real issue was the revision of its application. Even if you say that significant revisions will be undertaken in one year, there is still the possibility that those revisions will be determined by political interests. The problem associated with the retail store law concerns our preservation

of an antiquated product distribution system, and is a symbol of our baffling and opaque society.

Making Deals

The process by which we establish retail stores, as stipulated by our retail store law, was unreasonable from the beginning. Determining who would stand to gain or lose from the establishment of a retail store is a matter which is conducted behind closed doors where the big bosses are the local businessmen and the little bosses are the politicians. This procedure creates an atmosphere in which racketeering thrives, an environment in which the retailers, politicians, and everyone involved can profit from illicit and hidden deals. In other words, setting up a retail store becomes a deal, a matter of mutual consent for all parties affected.

Isn't this system, a system which propagates hidden deals and illicit profits which are then split up like loot among thieves, a crime against the consumer? Asking the very institutions involved in these dealings to revise the application of the retail store law will simply result in a more convoluted system of deals.

This time, the SII meeting focused on the antiquated nature of the Japanese socioeconomic system. It put light on the powerful political machine created by the symbiotic relationship between politicians, farmers, and small and mid-size businesses, a relationship which is sanctioned by the bureaucracy and protected as a vested interest of business.

As consumers, perhaps we have again lost another chance at a significant restructuring of Japan.

* Changes in Retail Practices Foreseen

902A0152A Tokyo NIHON KEIZAI SHIMBUN in Japanese 2 Apr 90 p 1—FOR OFFICIAL USE ONLY

[Article on Japan's distribution industry by NIKKEI reporter Abe: "Introduction of New Categories of Businesses Accelerating Restructuring]

[Text] The distribution industry is beginning to act in anticipation of a "post Large-scale Retail Store Law." It sees regulatory relief advancing "in installments," regardless of whether or not the repeal of the Large-scale Retail Store Law is incorporated into the interim report of Japan-U.S. Structural Impediments Initiative [SII] talks. Frontline distributors are hammering out new branch-store policies, and positive movement has started toward luring major stores to local business districts. It is anticipated that fresh categories of business as well as foreign retail businesses will be introduced. Regulatory relief will stimulate further competition among localities and among businesses, and will no doubt greatly change Japan's business structure.

"Guaranteeing Competitiveness in the Commercial Sphere"

It was 26 March, the day the movement opposing the repeal of the Large-scale Retail Stores Law began surging. A joint local meeting was held at the Maebashi Commercial and Industrial Assembly Hall to explain plans for expansion and for branches of nine major stores, like Itooka and Co. It was fully six years since the Maebashi City merchants last sat down at the negotiating table with major, top-ranking stores concerning expansion plans and adding branch stores of over 1,500 square meters in floor space.

Moreover, in the parleying, the merchant association agreed that the waiting period required for completing hearings to gain branch store approvals would be less than one year. "To go from a freeze on branches of major stores to creating shopping avenues centered on major stores" is a 180-degree turnabout. A shopping district association executive explained that, "Relaxation of regulations is a current of the times. So it's advisable that we lure in major stores without a moment's delay in order to preserve the competitiveness of our commercial sphere."

In Okayama Prefecture's Kusemachi, a new company the merchant association supports and has invested in has become a business nucleus and is moving forward with plans to construct a shopping center that will lure in as a core tenant a supermarket belonging to locally based Daiei. Traditional shopping districts, recognizing the difficulties involved in revitalization and rebirth, are discovering shopping centers as a way out.

Some executives of associations of small retail stores, which are calling for absolute opposition to either amending or repealing the Large-scale Retail Store Law, are divulging their real intentions in saying that, "Should this law be amended or repealed, the next focus will be incentive subsidy grants." In a fiscal 1989 supplementary budget, the government established a fund of 52 billion yen for revitalizing small businesses. The head of one association of small businesses, who, from the start, had been interpreting the fund as "financing for developing small stores," recently reversed his position by saying, "The fund is nothing more than collateral against introduction of the consumption tax." Associations of small retail stores, which are working for the implementation of fresh funding and which are keeping watch over the direction of the Large-scale Retail Store Law, are beginning to manifest concern about "the next move" that will be the harbinger of repeal.

Land Values and Labor Shortages a Wall

According to a quick survey done by NIHON KEIZAI SHIMBUN of 83 top managers of representative frontline distribution firms in Japan, nearly 70 percent answered, "If the Large-scale Retail Store Law were repealed, the effect for branch stores would be positive." The position of Shoichi Yamamoto, chairman of the Japan Federation of Shopping Centers [JFSC], which is

at the forefront of the movement opposing the repeal of the Large-scale Retail Store Law, expresses the fear that, "If it is repealed, small stores will go bankrupt, one after another. It could develop into a social problem."

However, Daiei's President (Isao) Nakauchi asserts that, "Even though the battle over branch stores will undergo changes, new-style branch stores cannot increase in numbers that much." Daiei's annual capital investment is 50 billion yen. With precipitous jumps in the price of land, the cost of opening a branch of a major store has swelled to 5 to 10 billion yen. Daiei calculates that, "It requires 10 years for an investment to achieve profitability," (a Daiei executive). Even with the desire to increase the number of branch stores, the restrictions imposed by land prices and labor shortages is "a wall which overshadows the Large-scale Retail Store Law."

Nearly all customers of supermarkets are families. They come to the stores by car and buy in bulk. The desire for branch stores by supermarket managers is causing them to sell stores in city centers where parking is at a premium and to use that money to build major stores in the suburbs.

The Nagasakiya is an example. They doubled their floor space by closing their Asahikawa branch store near the Japan Railways Asahikawa station (with a sales area of 8,600 square meters) and moving to the site of a former repair factory in the northern part of the city. In the future, with the consolidation of unprofitable small stores in city centers, "The number of stores will decrease, but their sales area will increase."

Due to precipitous jumps in wages and land prices, the heads of each and every department store are unanimous in saying, "It is reckless to open new department store branches in the center of cities," ([Ken] Yamanaka, president of Matsuya). When the Large-scale Retail Store Law was promulgated 16 years ago, frontline supermarkets simultaneously developed into convenience stores, but department stores in turn were left out of that developing new business climate.

How to navigate the major fluctuations brought on by the relaxation of regulations? An executive of Takashimaya divulged that, "Having learned from bitter experience, in the future, we will invest our effort in developing the business climate and aiming for growth as a group." Mitsukoshi apparently intends to open satellite stores in Fukuoka that will deal in top-of-the-line goods from America's Tiffany's and England's Harrod's and will be opening numerous distinctive satellite stores as well as core tenant stores in shopping centers.

Cooperation With the United States

Marui president, Tadao Aoi disclosed that, "What is truly frightening about the relaxation of regulations is what will be introduced by the bold concept of new categories of business." In this concept, over which the shopping districts and retail specialty stores exercise no control, there is the possibility of a new business climate. Mr. Aoi offered as an example Tokyu Real Estate's drive to proliferate its Tokyu Hans ["hands"] specialty stores to sell supplies to "Sunday carpenters."

Already the Japan Wool Textile Co. and the Oji Paper Co. have launched into multiplex shopping center projects taking advantage of idle factory land. The Kyohama Railway Line announced that it is aiming for a department store by 1994 and Japan Railways Eastern Japan has begun looking into a department store project that will meet the standards of the completed New Ueno Station building.

The possibility is strong for groups introducing new categories of business to join hands with American distributors. The first to land in Japan was the toy-store chain Toys-R-Us which linked up with the fast-food chain, McDonald's of Japan. Armour Japan representative (Tetsu) Nishimura, who has detailed knowledge of the workings of the U.S. distribution industry, observes that, "In the United States, there are discount chain stores, like Toys-R-Us, which sell varieties of goods, such as appliances and furniture. There is the possibility that this kind of new business climate will develop here in association with Japanese capital."

(Shuzo) Oyama, director of the Distribution Industry Research Institute, speculates that, "as branch stores become less restricted, there will be another upheaval as competition heats up. A new commercial structure will be created in a form which truly flourishes to the advantage of the local consumer and which will not favor the branch store." The need for retail business to change and adapt is unprecedented.

Article on Controversy Over SII Lists

OW2505021990 Tokyo MAINICHI DAILY NEWS in English 21 May 90 p 1—FOR OFFICIAL USE ONLY

[Text] U.S. Ambassador to Japan, Michael H. Armacost, a while ago reacted to criticism from members of the ruling Liberal-Democratic Party (LDP) that the list of demands the U.S. presented at the last round of the Structural Impediments Initiative (SII) talks "interfere in domestic politics," by claiming that the list was "Made in Japan." The Liberal-Democrats are still "investigating" to find out who provided the information to the United States.

Armacost's remarks, although based on thorough research, also expressed the self-confidence of U.S. negotiators who see themselves as a healthy opposition working for the benefit of Japanese consumers.

This series, while trying to look behind the scenes at Japan's involvement in the gradual fusing together of economies across national borders—almost to a point where phrases like "national interest" and "national sovereignty" become obsolete—will try to follow the

changes Japanese business and politics are being threatened with as a result of pressure being put on Japan to become "internationalized."

Armacost made his remarks about the list of demands during what were supposed to be informal discussions between executives from the U.S. Embassy and the chairman of the Japan-U.S. Parliamentarians League, Shintaro Abe, (former Liberal-Democratic Party secretary general) held at party headquarters on March 27, just beofre the interim report on the progress of the SII talks was to be finalized.

The occasion was also intended partly to be a celebration of the assumption by Abe of the post of chairman of the league, but Armacost said he wanted to get down to some serious discussions at the meeting, so it was held behind closed doors and nothing was made public.

Armacost appeared intense and ready to get things done during the meeting. He was flanked by all of the five minister-counsellors and behind them sat rows of aides carrying a large quantity of reference material. The scene was set more for serious negotiations than for informal discussions.

At the same time, in the party headquarters building, a meeting of the party's special group to examine economic issues was being held. The meeting was being chaired by Toshio Yamaguichi, former labor minister who is also secretary general of the Watanabe faction of the LDP.

Yamaguchi left the meeting in order to see what was happening at the "informal talks" being held two floors down.

Half seriously, half jokingly, Yamaguchi said at the meeting that there had been feelings expressed that the Kaifu Cabinet would not be able to ride out the period of deteriorating relations between Japan and the U.S., and that as a result there had been calls to "dump Kaifu."

"The prime minister is doing his best, however," he said, "so I stopped the campaign to drop Kaifu."

Yamaguchi's joke was seen as being out of place but was symptomatic of the degree of tension that was prevalent in the room.

House of Representatives member and former governor of Shiga Prefecture, Masayoshi Takemura, began the criticism of the U.S. by voicing his doubts as to whether the U.S. trade deficit with Japan, rapidly drawing close to 50 billion dollars, could be eliminated as a result of the SII talks.

Takashi Hasegawa, formerly minister of transport, continued the attack by stressing how well-behaved Japanese legislators are compared to their American counterparts.

"Your congressmen used hammers to smash a Toshiba cassette recorder to bits outside the Congress building at the time of the COCOM violation," he said, referring to Japan's export of high-tech machinery to the Soviet Union.

"If you bring the opinions of congressmen like that over here, it will cause problems," he said. "We'll have to start smashing things up as well."

House of Councilors member Hiroshi Miyazawa, brother of former Finance Minister Kiichi Miyazawa, followed up with another attack.

"As well as being too detailed, the U.S. demands are expressed too strongly," he said. "In Japan they have been openly criticized as interference in domestic politics. You should think about your methods," he said.

The 240 demands that the U.S. has made of Japan range from demands for changes in basic policies to demands for the reform of business and trading practices.

'Ideas' Only

The Foreign Ministry had explained to the LDP that the list of demands were only "ideas" and that it was not intended that they be brought to the SII talks and seriously negotiated. LDP members, however, were suspicious.

In particular, when he visited the U.S. a short while ago, former Prime Minister Noboru Takeshita was shown the list of demands by his old friend, U.S. Secretary of State James Baker, and asked for explanations of each item.

Takeshita is said to have refused to accept the list because he was not a member of the negotiating team, but soon after his visit, criticisms began to fly that the U.S. was meddling in Japan's internal politics.

It was also claimed that the list contained items that only a Japanese could understand, pointing to the cooperation of numerous Japanese with the Americans.

Further, on March 23, at a meeting of the chairman and vice chairmen of the LDP's group examining small- and medium-sized businesses, chaired by former Education Minister Gentaro Nakajima, tempers rose as dissatisfaction with calls for the abolition of the law protecting small businesses (the Large-Scale Retail Store Law) was discussed.

It was claimed that certain executives in the retail industry were working toward demands being made for the abolition of the law. Accusations flew that Japanese supermarkets and department stores, anxious to see the law abolished, had gone to the U.S. and provided materials and information to the Americans.

Whether he knew of what was going on within the LDP or not, Armacost's arguments were very clear.

"We learned everything from the Japanese," he said. "The U.S. demands are based on items that the Japanese

themselves are dissatisfied with and even if there are criticisms, the reforms are for the good of the Japanese people."

Armacost first claimed that the U.S. list of demands had actually been "Made in Japan" in a lecture he gave during a business seminar held in Kyoto on Feb. 8. Armacost's remarks caused feelings of surprise and unpleasantness as public suspicions were confirmed.

The ambasssador said that the material supporting the demands was all data from Japanese trading houses. Aware of the bad atmosphere, however, he decided to explain the true meaning of his "Made in Japan" remark.

"What taught us the most was the 'Maekawa Report' published four years ago. Ministerial white papers and proposals were also very useful as reference material. It is a great shame that the suggestions made in the Maekawa Report were not implemented," he said.

The Maekawa Report was prepared by a private investigative group set up by then Prime Minister Yasuhiro Nakasone to study economic structures with a view to international cooperation. The group was chaired by the former governor of the Bank of Japan, Haruo Maekawa. In order to put an end to friction between Japan and the U.S., the report urged that Japan shift from an emphasis on exports to an emphasis on domestic economy and international harmony. This was made Japan's international commitment.

During the one-hour-long discussion at the meeting with the U.S. ambassador, Chairman Abe kept his face screwed up into a stern expression.

"To be told that 'Japan has done nothing up to now' is rather unexpected," he said. "Japan has already made considerable sacrifices in the case of beef and oranges, and has been faithful to promises made to the U.S."

Many of those who attended the meeting said that they were not convinced by the explanation that the U.S. demands was based on the Maekawa Report, and Armacost's claim that the U.S. had learned everything from the Japanese left many with a bad feeling.

However, Armacost's thorough research carried out by the U.S. Embassy went a long way toward giving the impression that the U.S. feels Japan's enquiries about collaborators and criticisms of meddling in Japan's internal politics were trivial.

* Impact of SII on Japan-U.S. Security Examined

902B0111A Tokyo EKONOMISUTO in Japanese 24 Apr 90 pp 44-51—FOR OFFICIAL USE ONLY

[Roundtable Discussion by LDP Internationalist Diet Members Koji Kakizawa, Asahiko Mihara, and Katsuya Okada; moderated by EKONOMISUTO chief editor, Saburo Zushi and editorial staff member, Kenji Suzuki: "SII Will Eventually Have an Impact on Japan-U.S. Security"]

[Text] Having received the interim evaluation of the Structural Impediments Initiative talks [SII; known in Japan as the Japan-U.S. Structural Talks], the government and the Liberal Democratic Party [LDP] are currently wrestling with the final report. We asked some leading young LDP Diet members with significant international experience to candidly discuss how they interpret the interim evaluation, and how they see the future of relations between Japan and the United States.

Still Much Work Before July's Final Report

[EKONOMISUTO] What is your assessment of the interim evaluation of the SII talks?

Kakizawa: At any rate, I am relieved that an interim evaluation was agreed upon. However, it is strictly an interim assessment, not the last word. For that reason, I think it is best seen as a milestone in the permanent SII talks which are beginning now. The negotiators will now have to sweat out a final report in July, and even that will not be the end. That is because America made close to 200 demands of Japan. I think that as for treating future relations between Japan and the United States, especially economic relations, as though an accord had been reached, talks like these will have to be held constantly.

Mihara: The interim evaluation contains concrete proposals and proposals which are not concrete, but I have the feeling that America will to some degree take stock of our position. However, some in America, especially in the Congress, are apparently continually saying that Japan must clearly be seen to be cooperating. Considering that sort of thing, I believe there may be a great difference between our evaluation and their evaluation, but for the time being we will proceed, dealing with it constructively.

Okada: I think that probably America's ultimate goal is to have Japan and the United States compete in the area of economics according to common rules, so basically I think this kind of discussion will continue. I think this interim evaluation is the first step in that process.

[EKONOMISUTO] Speaking concretely, first of all what about the Large-Scale Retail Store Law?

Kakizawa: Japan has a long tradition of small and medium-sized retailing, and many people think that Japan should keep that tradition alive when building cities. However, the other side [America] plays by different rules. In cases like that I think it is necessary to bring the rules as much as possible into agreement.

Using a baseball analogy, there are two leagues: the Central and the Pacific; let's call the United States the Central League. The Central League has Central League rules, and the Pacific League has Pacific rules; and until now each has played by its own rules. However, now

people from the "Central League" are coming to Japan and asking that we play by their rules. We could say that because when we go over there we play by their rules, they should play by our rules when they come here, but is that not something to be ironed out mutually? Isn't it important to work things out by saying we will compromise, but you should compromise as well. That is why I spoke before of a "first step."

In the case of the Large-Scale Retail Store Law, it will be relaxed so as to have an effect on economic coordination [between Japan and the United States]. The application of the law will be improved. If that can be settled within a year, adjustment will be able to proceed much more flexibly than was possible in the past.

A New Spark From Application of the Law

[EKONOMISUTO] It is widely thought abroad that the Large-Scale Retail Store Law will likely be abandoned in two or three years.

Okada: It has been decided to improve the application of the law, so I think the concrete substance of the reform of the Large-Scale Retail Store Law will be decided by the extent to which the improved application is effective. If improving the application of the law is sufficient to cope with the situation then the law will not be abandoned, but if that turns out not to be sufficient, there will be increasing pressure to agree to the American request that the Large-Scale Retail Store Law be abolished. It all depends on how the law will be applied from now on.

Kakizawa: This time the adjustment period is being shortened to a year and a half, and furthermore reconciliation is being made within a year of the revision of the law. Even so, if there is criticism in America that this is unreasonable, I think that is going too far. Shouldn't the authority to regulate be left with the Japanese side?

Mihara: However, even if there is reform of the application of the Large-Scale Retail Store Law, if after years of discussion a conclusion is not reached, it will have no meaning to the Americans. In that case, as with the trade imbalance, after the adjustment of the Large-Scale Retail Store Law, if by any chance the conclusion is reached that foreign companies cannot open retail stores because that puts pressure on local people, that will set off a new spark. That is because the other side [the United States] has the idea that they should be able to open stores freely.

Kakizawa: I'm not sure whether or not most of the applications [to open stores] will come from America. In any case, when we said "We will take care of the matter within a year, and the law will be applied flexibly; so go ahead," did they really come?

Mihara: Only one; it was in Niigata.

Kakizawa: That was the Toys-R-Us toy store.

Okada: They are saying they want to open 100 stores in five years; so I think foreign stores will enter the market to a certain extent.

[EKONOMISUTO] I think it is important to create a framework for liberalization between Japan and the United States, and that this is separate from the argument over whether or not foreign stores will actually come to Japan. What is your opinion?

Kakizawa: That is no doubt the American view. If that is the way we proceed, then we must say that to the Japanese side, there is a significance to the existence of the Large-Scale Retail Store Law itself.

Even in the United States There Is Bidding Consultation in Construction

Mihara: In my home district young people who are considering opening small shops are looking ahead to the future. There are people who are changing their way of thinking as they realize that they will not make any progress merely by continually stating their opposition [to the entry of large stores]. Then there are those who are considering inviting in a store with the ability to draw many customers, and opening smaller specialty stores around it; or if they are in a related business, attracting customers by putting all their efforts into service. MITI [the Ministry of International Trade and Industry] is also guiding people in small and medium-sized businesses in the direction of jointly operating fashionable shops, for instance in American-style malls. Mustn't we keep pace with these constructive developments? The government is backing us up, after all.

Okada: The greatest problem lies in the fact that the Large-Scale Retail Store Law was not applied as it should have been. The law requires notification to be given, but as it is actually applied permits are used. If an understanding is not reached with the local merchants, the permit [to open a large store] is not granted. When Americans see this sort of thing, they wonder if Japan is really a nation governed by law. I think the fact that laws have always been applied in this way requires further reflection on our part.

Furthermore, we cannot overlook the fact that the existence of the Large-Scale Retail Store Law has acted to protect existing large stores from competition. It is said that after the law was passed large stores lost their vitality, or that all stores including large ones have come to terms with the present rules. I feel it is best that we return once again to the starting point.

[EKONOMISUTO] What is your evaluation of the revision of the Anti-Monopoly Law?

Mihara: The biggest problem with bidding consultation is in the construction industry. I asked an alumnus of the Ministry of Construction whether such consultation exists in America, and he said that guarantee companies are created which back up financial institutions. If either the guarantee company or the construction company

fails it is a serious problem, so a system has been created in which each side monitors the other. One gets the sense that while America has an open system, laws are strictly obeyed.

In Japan, even in everyday life things are not done according to laws; the attitude is that if other conditions have changed we can alter a contract. On that point, wouldn't it be better if, rather than changing our way of doing things, we used the SII talks to educate the other side about our practices?

Resistance to Public Investment Due to Reconsideration of the Locomotive Theory

[EKONOMISUTO] What is your opinion on increased public investment?

Okada: It is certainly true that Japan has an absolute shortage of social capital [infrastructure], so even if America had not brought it up, was it not time for Japan to expand its public investment? I think we have come to the point where we need to take a step forward with financial reconstruction.

Kakizawa: When I asked one of Japan's representatives at the negotiations why he was so persistent, he said it was because of his experience when he was younger, at the Bonn summit during the time of the Fukuda administration, when he was subjected to the Japanese and German locomotive theory, and Japan was told its economy should grow by seven percent and it should increase government expenditure by 30 percent. If Japan is held to specific percentage increases in financial investments and public investments even though future economic growth is uncertain, who knows what kind of negative effect it will have on the economy? He said that his decision to emphatically insist on this point was made after reflection on the locomotive theory at the time of the Bonn summit.

On the whole I have no objections to increasing public investment, but the problem is the source of revenue. The Construction Ministry is carrying out a commitment to eliminate deficit-covering bonds, and now plans to curtail the issuance of construction bonds. If Japan, after going to great lengths to reduce deficit-covering bonds, merely switches to construction bonds, then the overall tendency to deficit financing will not change. It would be fine if the government imposed taxes and undertook public works, but can a consensus on that really be reached within the LDP?

Mihara: If public investment is increased as America has said it should be, that will be welcomed within the LDP. It will mean more roads and bridges.

Kakizawa: In the discussions of the LDP's Special Investigative Committee on Economic Structural Adjustment, there is opposition concerning the Large-Scale Retail Store Law and the Anti-Monopoly Law, but the LDP leaders for the most part support public investment. However, there are many people who absolutely oppose investment in the kind of basic city facilities urged by America, such as sewers, parks, intracity roads, and the transportation network. That sort of investment would all be concentrated in Tokyo, giving that city a boost over all others. Those people say that instead the government should carry out the kind of public investment that can be shared equally by rural villages.

Mihara: That's just what I would say.

Kakizawa: They are saying, "Carry out public investment in the provinces, even if it means a loss in the cities with the Large-Scale Retail Store Law." They want the benefits passed on to the provinces, and the cities to bear the burdens alone; that is a problem.

[EKONOMISUTO] How about the land problem? There are those of the opinion that in another 10 years farmland will have disappeared from the 23 wards of Tokyo.

Kakizawa: This problem has several aspects: one is the supply of housing; one is the stabilization, or even the decrease, in land prices resulting from an increase in housing supply; and one is the issue of a pleasant urban environment. Concerning the first two points, that [the conversion of farmland to other uses] would have a positive effect, but concerning the creation of a pleasant urban environment, there are those who argue that land which can be left as productive farmland should be left that way. The theory is that the land should be left as is for greenery; for protection in case of disasters; for a variety of reasons.

While ironing out this point, we will preserve the land which we think it appropriate to preserve for the future by zoning it so it cannot be developed. As far as that is concerned, a certain amount of favorable treatment may be left in the tax system, but the easy conversion of the land to residential use will not be approved. In the future, taxes will be scrupulously collected from those who want to convert their land to residential use. I feel that the problems of how to deal with farmland within city limits; whether to tax it at the same rates as residential land, must be dealt with properly in combination with urban planning.

Mihara: If we carry out urban planning, would it not be best to do it by prior acquisition? In return, because the costs of maintaining the land up until now have been low, the city or the country would buy land not at the market value, but at a lower price; and use the land as green space or as shelter in case of earthquakes.

The Concern Is the Reaction of the U.S. Congress

[EKONOMISUTO] Do you have the feeling that the final report in July will not differ very much from this interim report?

Kakizawa: For the time being, the Japanese Government will most likely proceed in this way. I think it will be possible to make concrete allowances for the problems of public investment. However, will the U.S. Congress

really be satisfied with this? With that degree of response, when we are confronted with Super 301 or talk of managed trade, we may be shaken up once more. Is this not a point of concern?

[EKONOMISUTO] Nevertheless, the fact that Japan cannot make reforms without pressure from America was unexpectedly revealed once again. Taking the Large-Scale Retail Store Law as one example, I think anyone in Japan who knows something of how things work could predict the course of events: this time it was finally decided that the application of the law would be reformed; after many more negotiations between Japan and the United States it will no doubt finally be abolished. Why can't Japan undertake reforms voluntarily?

Kakizawa: Speaking from my own experience, when I first ran for election 13 years ago, I asserted that I would pay attention not only to the voices of producers, but also to the voices of consumers. I intended to be a politician who would listen not only to organized voters, but also unorganized voters; who would listen not to the voice of the noisy minority, but to that of the silent majority.

However, after actually running in three or four elections, I found that those who supported me tended to be on the producer side; or those engaged in business. In that sense as far as elections are concerned consumers have an ambiguous, hazy existence; and if I turn my attention to them, and ignore the voices of the producers and industry organizations, the backlash at election time is severe. If I listen to the "voice of the voiceless," I must say I don't know whether the people in the so-called silent majority give me their votes or not.

Why Does a Consumer Movement not Develop in Japan

Okada: I think the biggest problem is that there are very few groups in Japan which represent the interests of consumers. There are many organizations which claim to be consumer groups, but if one asks whether they really speak on behalf of consumers, isn't the answer that they do not always do so? If one actually looks back on what concrete successes Japan's consumer movement has had over the last 10 or 15 years, one gets the feeling that there were very few of those successes. I think that is a major reason why the voices of consumers are not reflected in politics. The best thing would be for consumers to create more and more organizations, and for those groups to support politicians whose policies take the side of the consumers.

Kakizawa: Japan's consumer groups because of their makeup do not reflect in a true sense the needs of consumers.

Mihara: That's because they immediately descend into ideology.

Okada: For instance, the complete opposition to the liberalization of agricultural imports. Of course there are various reasons such as environmental problems and safety standards, but it is doubtful whether most of these are the kind of issues that should be brought up by consumer groups.

Mihara: While saying, "Import cheaper goods," they oppose imports of rice. One gets the feeling they think only of what is good in the short run.

Kakizawa: I think that paradoxically, the reason that a consumer movement has not developed in Japan is that corporations do a better job than consumer groups of meeting the needs of consumers. They work to improve quality, and produce the best goods in the world. Prices are somewhat high, but Japanese consumers are relatively affluent, so they are inclined to buy high-quality goods even if they are expensive. I think that is because although they go too far in some respects, Japanese corporations are responding to the needs of consumers.

Introduction of a Price Mechanism for Rice as Well

[EKONOMISUTO] As far as liberalization of rice imports is concerned, I think that after this fall, that will become a major source of economic friction between Japan and the United States In particular, I have the feeling that because the Uruguay Round [of GATT talks] comes to a conclusion this December, negotiations between Japan and America will become stormy. What is your opinion of Japan's position on rice?

Mihara: For rice alone—probably because my own hometown is a farming community—I am opposed to liberalization. Regardless of what happens in the Uruguay Round, even if it means paying a penalty, it is best to remain self-sufficient in rice.

Concerning rice, there are people who speak of something like food security, but if we argue this with a food security doctrine, I think we will definitely lose. Growing rice itself will become impossible if we lose our supply of oil. If we say it is for food security [that we maintain self-sufficiency], the argument breaks down.

What I am saying, although it is a nostalgic way of looking at things, is that when I went around my election district in February to campaign for this election, because one-third of the rice fields were lying idle I saw lots of withered goldenrod. Looking at that, I thought of the decay of my hometown. It is said that 800 billion yen is spent on agriculture, but to prevent the devastation of local farming villages I am opposed to the liberalization of rice.

Kakizawa: Isn't it strange that, as in the case of the necessity of improving the application of the Large-Scale Retail Store Law, there is a broad consensus among the ruling and opposition parties not to allow the importation of even one grain of rice? On that point we must display some form of forward movement. I think we will have to admit a certain level of imports.

Okada: The fact that there are rice fields lying idle now is a different issue from the liberalization of rice imports.

That is because even if imports are not liberalized, the fact is that farmers are being forced to reduce acreage. I personally stated before the election that I was opposed to liberalization, but no one can say what will happen 10 years from now. If we do not use the brief time remaining to prepare countermeasures, Japanese agriculture will fall into confusion. Actually in one sense agricultural policies are a failure.

I think the biggest political issue over the last 10 years or so has been the problem of rice. Do we not have to free up the domestic rice market a little more? I'm not talking about the export and import markets.

Kakizawa: For one thing, wouldn't it be better to revive a price mechanism for rice? Up until now there have been few differences between brands, few differences in quality, so farmers went with varieties that yielded a high volume. It became possible to grow rice as far north as Hokkaido. Farmers should switch over once again to high-quality varieties. In that case it wouldn't matter if prices were high; farmers could specialize in low yield varieties and create market niches based on price and quality. I think that would be one way of solving the problem.

The Retirement of Part-Time Farmers

Mihara: Japanese now eat only 70 kilograms of rice per year. Rice which costs 6,000 yen for 10 kilos is fairly expensive rice, but ever at 6,000 yen per 10 kilograms, the average person eats only 42,000 yen worth of rice per year. That works out to about 110 or 120 yen per day. Even if we speak of price mechanisms and such, the daily expenditure is only about half the cost of a pack of cigarettes.

Okada: But even a price differential of one to ten would not be strange. For example, between a 500 yen meal and a 5,000 yen meal there is almost no difference in the cost of the rice. It would be fine if there were rice ten times as expensive to correspond to a 5,000 yen meal. Of course the quality would have to be different as well.

[EKONOMISUTO] I don't like to say that the rice fields are overgrown with weeds, but completely apart from the liberalization of rice, if present trends continue farm households will disappear. There will no longer be farming by "mom, grandma, and grandpa" [because "dad" is working at a non-farm job], but farming by one person alone.

Mihara: This is connected to the land problem, but the decrease in the number of farming households in suburban areas is the fault of those who farm as a secondary occupation. A "salaryman" [white-collar worker] who works about five "tan" [1.225 acres] of rice fields can't produce anything. It is as if farming were a hobby.

It would be better if those people who farm as an avocation were to give up their land, or place it on deposit, but those who own land are strongly attached to it, and are reluctant to loan it out.

In that case the land would be better off sold, but, for example in my area in the suburbs of Kita-Kyushu, agricultural land does not cost much per unit area, but land which can be converted to other uses costs as much as 200,000 or 300,000 yen per tsubo [3.3 square meters]. At those prices the land becomes not farmland, but real estate assets. If it becomes possible to use the land efficiently as farmland, I think the problem of succession will be solved.

Kakizawa: During the election campaign, then-Education Minister Ishibashi said that those who farm as a secondary occupation ought to quit farming; he became the object of criticism and was forced to step down. Isn't what you just said something very close to that?

It is necessary to encourage farmers to stick to farming alone, and increase the scale of farming operations, in order to give Japanese agriculture a certain amount of international competitiveness; to cultivate rice at a price close to international levels. As for the part-time farmers, they should withdraw from agriculture altogether, for example by leasing their land for others to farm. Then it is necessary to have future prospects for agricultural policies which encourage intensive farming.

[EKONOMISUTO] Concerning rice imports the LDP is possibly more flexible than the opposition parties. America is not saying anything unreasonable about agricultural problems. The idea was to work on the problems over a 10-year period in the Uruguay Round talks.

Mihara: Farmland must be thought of not as an asset, but as a means of production. It is different in depopulated areas, but elsewhere one gets the feeling that farmland is more of an asset than a means of production. I have the feeling that this must be seen not as an agricultural problem but as a land problem.

The United States Is Studying Japan in Earnest

[EKONOMISUTO] Finally I would like to ask what you think about the future of the relationship between Japan and the United States.

Kakizawa: I think there are two main points to be considered when looking at the relationship between Japan and the United States in the 1990's. One is how Japan and the United States will be able to cooperate in a so-called global partnership in the construction of a new international order following the collapse of the cold-war structure between the United States and USSR. The other is whether the bilateral relationship can stabilize as a closer alliance.

Speaking of the global partnership, recently Japanese-American summit conferences have discussed not only bilateral problems, but also such things as Japan's aid policies toward Eastern Europe, relations with the European Community, and peace in Central America. I think this is a good thing, and I think it shows that Japan is

ready, is prepared to take on more international responsibility than it has up until now.

As for the bilateral relationship, I think it is necessary that we engage in something like the SII talks continuously. Because the relationship between Japan and the United States is the most important bilateral relationship in the world, if the countries play by different rules there will be trouble. If the countries engage in continuous long-term structural adjustment up to the point where a system of true interdependence is established, the day will surely come when it will be impossible to say that one side wins and the other loses.

Until then I think we will have to resign ourselves to dealing, so to speak, not with an acute illness, but with a chronic illness.

Okada: I agree with you. But when Japan and the United States hold discussions at the SII talks, it is important that Japan not always bring itself closer to America's rules, but that America bring some of the strange aspects of its system in line with Japan. In that sense, in the negotiations over the next 10 years, it will be essential to clearly label those strange areas as strange.

Even so, when I look at the 200 some-odd items which America is now proposing for Japan, of course there are many which are off the mark, but there are also some which are quite reasonable. I get the feeling that America is really studying us well. There are those who argue emotionally that there must be Japanese who acted as stool pigeons to the American side, but I think we should realize that in fact America has seriously taken up the subject of Japan, and studied it in earnest. About five years ago, I think the impression given to the Japanese negotiators was probably that the substance of the American demands on Japan was rather dubious, but America's study of Japan now is something to marvel at.

Tradesman Diplomacy or Idea Diplomacy?

Mihara: I am not saying this to demean the Japanese, but if we ask which is greater: the degree to which America needs Japan or the degree to which Japan needs America, the answer is clearly that Japan needs America more; economically, politically, and militarily.

Taking that into consideration, although it is difficult to say whether or not the virtue of modesty is a good thing in international politics, Japan is better off always maintaining that attitude. I am not former MITI Vice Minister Naohiro Amaya, but I think that ultimately it is best for Japan to take the attitude of a tradesman toward his customers, and tell America "You're the boss; we'll do what you say." In other words, abandon the pretense in favor of the reality. I believe that to join hands with America in all areas in this way will be a good thing in the long run.

[EKONOMISUTO] Continuing on that topic, is it OK for Japan to continue to adopt the passive posture it has taken until now in the dialogue between Japan and the United States?

Mihara: I don't know what will happen in 20 or 30 years, but basically I think it will be fine. Speaking geopolitically, Japan is a country which in times of need must rely on others. It is inconceivable that Japan could return to a state of isolation. Japan must have closer relations with other countries. The dynamic Japanese economy could not be assimilated into China. It will have to be America after all.

In one sense it is an honor to be asked by America to be an equal partner, but we have no choice but to admit that Japan is incapable of being an equal partner. That is my feeling.

Kakizawa: The cold facts are that there is a difference in strength between Japan and the United States. I don't think it is good for the Japanese to get cocky and claim that the two countries are equal, but, on the other hand, as far as diplomacy is concerned, I think we have reached the point where we must turn from tradesman diplomacy to a diplomacy of ideas.

That is to say, up until now military power backed up international proclamations, but now those days are disappearing. Rather, the entire earth has become an overcrowded society, and the modus vivendi of an overcrowded society is coming into question. The Japanese have lived in an overcrowded society since the Edo period, and are full of ideas about it. Concerning the environment as well, Japan had acute problems in the 1960's and 1970's, but it overcame those problems to become the most advanced country in the world on the environment. Another way in which I feel Japan can now be of service to the world has to do with the Japanese way of living, way of dwelling, in an information-oriented society.

Concerning corporate management, not every aspect of Japanese-style management can be applied everywhere in the world, but various requests to study it are coming from Poland, Hungary, the USSR, and elsewhere. It is necessary for us to teach the world Japan's management know-how.

Haven't we reached the point where Japan, which until now has played only a passive role, can make an active contribution to the building of 21st century civilization? Would it not be a good thing for Japan to make the most of its special qualities in coming up with ideas to contribute to world culture, prosperity, and peace; and in a spirit of not being outdone by America, to argue on equal terms?

The Japan-U.S. Security Treaty Is a Deterrent to Japan's Military Expansion

[EKONOMISUTO] Recently it has been argued that the Japan-U.S. Security Treaty should be revised. What is your opinion?

Kakizawa: We must avoid at all costs having economic friction lead to security problems. I think we should hold on to the present Japanese-American security structure. Recently the arguments in favor of abrogating the security treaty have come more from America than from Japan. They say that it is no longer necessary for America to be responsible for Japan's security; simply let Japan take care of its own security. I think this is a dangerous argument. The Japanese-American security partnership works not only for the security of Japan, but also to maintain a good, stable relationship between Japan and the countries of Asia and the Pacific; it is the axis of stability in Southeast Asia.

Mihara: As long as there is a North Korea (Democratic People's Republic of Korea,) can we maintain peace without the Japan-U.S. security system? The conditions are different from those in Eastern Europe. I think that under present conditions this is not the time to criticize the Japan-U.S. Security Treaty.

Kakizawa: I do not think it will be easy to get to the point where a collective security system can be conceived in Asia. In other words, a collective security system encompassing Japan and South Korea, China, and the countries of ASEAN [Association of Southeast Asian Nations] is the ideal, but the differences in the economic levels and other national strengths of the various countries are too great. Thus we have no choice but to rely on the bilateral relationship.

In that sense, the Japan-U.S. Security Treaty not only protects Japan, but is a way for America to deter Japan's military expansion. This also has the function of providing a sense of security to the Asian countries which fought Japan in the Second World War. The Americans have recently been using that argument.

Will There Eventually Be a Thaw in Asia as Well?

[EKONOMISUTO] However, I believe that eventually the American and Soviet military contraction will be reflected in Asia as well.

Kakizawa: I think a reduction of the American presence in Asia and the Pacific is an unavoidable fact. If we accept that premise, it is also a fact that the time has come when Japan, while maintaining the framework of the Japan-U.S. Security Treaty, must consider independent security policies to respond to that situation.

Okada: Japan's defense policies up until now have not made clear what their objectives were. Issues such as the problem of defense spending exceeding one percent of GNP and the unconstitutionality of the Self-Defense Forces have been argued from beginning to end in ignorance of what situations are hypothesized and how Japan would be defended. However, because the world's political and military framework is about to change, Japan has reached the point where the Japanese must consider for themselves how to defend their own country.

Kakizawa: Europe is beginning to pay attention to Japan's security policies; and French Defense Minister Chevenement is coming to Japan at the end of April. As the U.S.-Soviet bipolar structure has changed, Japan's military presence has become an object of concern to Europeans. How shall we reconcile the eastern and western edges of the Eurasian Continent?

Mihara: Furthermore President Gorbachev will come to Japan next year, and if he refers to the problem of the four northern islands [held by the USSR but claimed by Japan], it will be a turning point with respect to Japan's defense policy. If it is understood that the Soviet Union wants to break away from the Cold War structure, change will come to the Japan-U.S. security system as well.

Kakizawa: As long as the SII talks discuss the Large-Scale Retail Store Law, relations between Japan and the United States will be OK. If the fire spreads to the Japan-U.S. security system, it will mean trouble for Japan.

Electronics Firms Aim To Keep 'Keiretsu' System

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[By Waichi Sekiguchi, staff writer]

[Text] Japanese home appliance manufacturers did not come to worldwide dominance by dint of innovative technology and high quality alone. They also got a big boost from a nurturing domestic market. For industry leader Matsushita Electric Industrial Co., for example, its 25 percent share of the domestic refrigerator market is supported by 24,000 "National" shops that sell nothing but its National and Panasonic products.

In exchange for special rebates and other remuneration, these keiretsu shop proprietors also promise to sell Matsushita goods at the manufacturer's suggested prices. Other leading manufacturers, such as Hitachi Ltd. and Toshiba Corp., maintain similar keiretsu distribution networks in the Y6.25 trillion domestic home appliance market.

Useful as the outlets have proven to ensuring domestic profit margins and market shares, they are now facing affronts from several quarters. To outsiders, namely the U.S., the keiretsu have come under fire for allegedly exclusive cross-shareholding, but there is now concern the barbs will be directed at their keiretsu retail networks of 63,000 exclusive shops. Such worries were exacerbated in April when Matsushita called a press conference to deny reported plans to alter its keiretsu retail system for fear of a U.S. backlash.

In defending the keiretsu shops, Matsushita Vice President Shoji Sakuma said the home appliance industry's retail practices are not exclusive because they are an inherited sales method established collectively by the

Japanese industry. Whether or not the U.S. buys that logic or presses the issue further, liberalization of Japan's distribution is putting keiretsu retailers under increasing pressure and conjuring up strong ambivalence among manufacturers about how much support to provide them.

"If you have keiretsu shops, you can take leadership in pricing in the market against discounters and you can make a solid production projection," says Matsushita spokesman Akinori Kimura.

On the other hand, huge networks of mom-and-pop shops are inherently inefficient and increasingly burdensome to manufacturers. That cost has been especially troubling since the sharp appreciation of the yen from 1985 refocused attention on the home market.

In addition to an average 25 percent sales margin, Matsushita keiretsu shops enjoy higher rebates than independent retailers. Moreover, Matsushita maintains unique financial reserves for dealer business development and dividend payments. "I guess the company is obliged to pay several billion yen to dealers every year," calculates Tatsuo Taki, a National shopowner in Gifu Prefecture.

Another problem for the manufacturers is that the sophistication of products is beginning to outgrow that of keiretsu proprietors. Most shopowners are now over 60 years old and have a tough time keeping up with new technology.

In addition, consumers are demanding greater diversification than even the largest manufacturers can offer alone. "Even home appliance stores cannot appeal to consumers with just one company's brand," says Hitachi's spokesman Takeshi Okamoto. In response, Hitachi now allows its 9,000 keiretsu shops to chalk up about 20 percent of their sales from other manufacturers' products.

Even with such changes, the market appears to be moving inevitably away from keiretsu shops toward more efficient, price-competitive large-scale retailing. Over the past decade that trend became apparent in the decline of keiretsu home appliance sales to 40 percent from 60 percent of the domestic market.

For Matsushita, more than 50 percent of home appliance products are still sold through its national shops, and the company sees its large retail network as a key to holding market share.

At the same time, large independent retailers have gained considerable clout over the past five years, while buying in bulk and requiring much less handholding from manufacturers. As such outfits gained market share, manufacturers have vied for room on their shelves by upping rebates even higher than accorded keiretsu shops, says Akira Takemura, chairman of the Electrical Products Retailer Association.

Recently, however, manufacturers have begun to have second thoughts. Most of all, they fear the independents will gain too much leverage and erode their price-setting power.

"If such retailers become very powerful, manufacturers will be impoverished by harsh price competition as in the U.S.," says Tomoo Shimizu, executive director of the Nippon Electric Big-Stores Association.

Even some keiretsu shops have defected from the manufacturers to join retail franchisers, claiming they offer better sales support. The dependence of manufacturers on keiretsu shops and reluctance to hand over too much power to large retailers is likely to keep the smaller outlets up and running for some time to come.

Toshiba and Hitachi, for example, recently reduced rebates to large retailers. Although Toshiba suffered a decrease in sales last spring as a result when retailers turned to hawking other companies' items, the company claims the trade-off was worthwhile. "We decided to implement the new rebate plan even if we would lose our market share because we believed it would help us in the long run," says Toshiba's senior manager of consumer products marketing, Kazuhiro Ohe.

For its part, Matsushita is trying to breathe new life into its keiretsu retailers by upgrading their operations with new appliances. It has a pilot project of 100 "Human Shop" outlets up and running with entirely revamped layouts.

Editorial Urges U.S. To Reduce Fiscal Deficit

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[Editorial: "U.S. Urged to Take Measures to Cut Back on Fiscal Deficit"]

[Text] President Bush and floor leaders of both houses of Congress in the United States held an emergency budget meeting on 15 May and decided to take radical measures to reconstruct the ever-deteriorating finance. White House spokesman Fitzwater made it clear that "the administration would not be sticky about the previous way of thinking" and suggested the possibility of measures, including, not only cuts in government spending, but tax increases.

During the 1988 presidential campaign, President Bush promised "no new taxes" to the American people as one of his election commitments. At the time, Mr. Bush was belived to support Reaganomics, in which increases in individual incomes and enterprises' profits through a reduced tax burden would bring about a brisk economy and this would, in turn, lead to increasing tax revenues required for keeping the finances in balance.

However, if President Bush takes steps to increase taxes, this will give people at home and abroad a clear-cut impression that he is setting out a domestic policy of his

own, breaking away from the Reagan domestic policy he has followed since he took office last January. We have long maintained that it is necessary for the United States to take tough measures, including tax increases, to reduce the fiscal deficit. The President and leaders of political parties have faced up to reality and decided to take steps to change the domestic policy. We welcome these moves. We think that the restoration of a balanced budget is the responsibility to be fulfilled by the United States and the American people themselves.

Faced with the question of how to deal with the relationship between tax increases and his election commitments, President Bush has resisted tax increases for about a year. In Japan, however, political leaders breached their election commitments by introducing a sales tax system shortly after elections in which they had promised not to introduce a large sales tax system. In living up to election commitments, Japan and the United States are in a substantially different situation.

Off-year elections will be held in the United States in November. In view of the elections, in which one-third of the Senate seats and all seats in the House of Representatives are involved, President Bush should set out concrete measures to cut the fiscal deficit as a policy of the Republican Party, beyond simply reviewing his election promises.

During eight years of the Reagan administration, tax revenues did not increase as much as anticipated. Nonetheless, government spending increased annually, and the defense spending was a key factor contributing to increased government spending. In 1985, the defense budget amounted to $300 billion and aftereffects of armament expansion during the era of the Reagan administration have brought about fiscal straits now facing the Bush administration. The budget message for Fiscal 1991 (from October 1990 to September 1991) envisaged fiscal deficits at $64 billion in accordance with the Fiscal Balance Law (the Gramm-Rudman Law). Judging that, with only the cuts in government spending, this goal cannot be achieved, the administration appears to be compelled to take steps to increase taxes. On the other hand, this can be viewed as President Bush's move to liquidate Reagan politics.

Nonetheless, there is discontent. First, the timing for a cutback on the deficit is wrong. Second, a tax increase is highly likely to end substantially small, because of anticipated strong resistance within the administration.

It is true that there are allegations among intellectuals that defense spending during the era of the Reagan administration has brought victory to the United States in the U.S.-Soviet Cold War. Although we do not unconditionally support the view that only the United States had paid the price for easing East-West tensions, it is safe to say that drastic changes taking place in Europe verify the value of the liberal system. The restoration of flexibility in the U.S. economy and the stabilization of the dollar, a key currency, are important, not only for Western nations, but for the whole world.

It goes without saying that trends in people's livelihood, which "consume more than production," in any nation lead to trade and fiscal deficits. U.S. society has a long history of conception that "consumption is a virtue." In order for the United States to prosper in its free society and improve its economic productivity, we hope the country will spare no "pains" to bring about a balanced and wholesome budget.

Editorial Views U.S. Fiscal Deficit Issue

OW2805025990 Tokyo NIHON KEIZAI SHIMBUN in Japanese 21 May 90 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Editorial: "U.S. Scenario for 'Favorable Recession'"]

[Text] International attention is once again focusing on the U.S. fiscal deficit issue. President Bush himself has said: "Read my lips: No new taxes." However, the President has proposed to Congressional leaders the holding of direct consultations (a budget summit) to rebuild his administration's financial situation, saying: "Let us talk to each other with no preconditions attached." It is this proposal that is triggering international attention.

What is important is the background leading up to the holding of a budget summit. This summit represents a switch in U.S. fiscal policy, a switch resulting from the country's runaway fiscal deficit and the changing international political and economic situation.

The U.S. fiscal issue is not purely a domestic issue given that the United States is a key currency nation. There will be no problem if the fiscal deficit in the United States can be met by the country's domestic savings. At present, however, a substantial portion of this fiscal deficit is being met with overseas borrowing. This means that the U.S. external debt will further increase in the future and that the world currency structure and financial system, in which the dollar plays a key role, will become unstable.

As a result of rising interest rates in the United States, developing nations saddled with foreign debts face the burden of paying more interest. The cumulative debt issue is also becoming more serious.

On the other hand, as the United States and the Soviet Union embark on a course toward ending the Cold War, the situation in Eastern Europe is drastically changing. The nations in Eastern Europe, which have begun reforms, are in need of huge amounts of fresh funds. For this reason, each of these countries is paying increasing attention to U.S. fiscal policy moves.

Danger of Ballooning Fiscal Deficits

The current U.S. fiscal balance is in substantially better shape when compared with that of 1980, which was bad.

For example, the fiscal deficit's GNP ratio dropped to 2.5 percent last year from the 6.3 percent level that existed in 1983.

The Budget Address (the budget estimate submitted to Congress by the administration) for the fiscal year 1991 (October 1990 to September 1991) envisages that this ratio will drop from the previous year's 2.3 percent to 1.1 percent. At the Japan-U.S. Structural Impediments Initiative talks, the United States stressed this point. It was one of the U.S. measures incorporated in the interim report agreed upon by both sides at the April talks.

The question then arises as to why a budget summit is being held between the administration and Congress at this time. The answer to this question is clear: As the fiscal deficit becomes more inflated in the wake of a business slowdown and the spending to rescue savings and loans institutions, the goal of achieving "a fiscal balance in 1993" is becoming uncertain.

The Budget Address submitted to Congress early this year envisaged the 1991 fiscal deficit to be $63.1 billion. Thus, the address called for halving the estimated $123.8 billion fiscal deficit of 1990.

The administration, however, has begun to say that if the present fiscal situation is left unchanged, then the 1991 fiscal deficit might balloon to $165 billion or more.

The Gramm-Rudman-Hollings Act, which incorporates tough fiscal measures, was designed to balance the government's financial situation. This act sets annual goals for cutting the fiscal deficit in order to reduce it efficiently with the goal of achieving "a fiscal balance in 1993." The act also provides for "mandatory fiscal management measures" to cut back on government spending in case the deficit goes beyond goals by more than $10 billion.

At present, plans for an annual fiscal deficit cut call for $100 billion in 1990, $64 billion in 1991, $28 billion in 1992, and a fiscal balance in 1993.

Prospects for the 1991 fiscal deficit are already off target because of an overly optimistic outlook for the economy. With regard to the economic growth rate, which is the basis for estimating fiscal revenues, the administration expected the real growth rate of 1990 to be 2.6 percent and that of 1991 to be 3.3 percent.

In effect, however, the U.S. economy has already begun to slow down. The administration is in a confrontation with the Federal Reserve Board (FRB), blaming the FRB's tight money policy for the slowdown. If there is enough domestic saving despite an enormous fiscal deficit, then this will reduce borrowing from foreign financial sources and weaken pressure for increased interest rates on financial markets. In effect, however, saving still remains at a very low level. Moreover, the savings rate is short term; expectations for long-term rates are dim. If the monetary policy is eased while leaving the fiscal deficit as it is, then interest rates on financial markets will automatically be pushed up. This is an unadvisable policy choice.

An end to the long history of the Cold War between the United States and the Soviet Union is about to "allot peace" to the United States and to the world as a whole through disarmament. Such peace will make it possible for the United States to cut back on military spending. Given the international importance of the U.S. fiscal balance, we hope that the United States will reflect this peace positively to its financial sphere.

If the fiscal deficit is not substantially reduced despite these measures, then there is no alternative but to increase fiscal revenues through more taxes. If the fiscal balance is improved by mending either spending or revenues, then the pressure for interest rates to rise on the financial markets will abate and the administration's need to count on national bonds will be reduced. This will serve to accelerate an improvement in the fiscal balance.

It is necessary to put a brake on the runaway fiscal deficit in order to meet growing demands for funds (savings) from Eastern Europe.

Signs of Changes in U.S. Security Relations

OW2305015090 Tokyo YOMIURI SHIMBUN in Japanese 2 May 90 Morning Edition p—FOR OFFICIAL USE ONLY 13

[Commentary by Takanao Matsuoka: "Signs of a Change in Japan- U.S. Security Relations?"]

[Text] The U.S. forces will cut their manpower in Japan by 5,000 to 6,000 over the course of the next three years. While this is about to begin, there are signs that relations between the "uniformed" people of Japan and the United States are becoming delicate.

For the past several years, the Self-Defense Forces [SDF] and the U.S. forces have furthered their mutual understanding through regular joint exercises, and these activities have not been limited to those relating to hardware, such as weapons, but have extended to those contributing to improved interoperability in software covering operations and communications.

But according to a colonel of the Ground Self-Defense Forces, "the high-handed attitude of the U.S. forces has become noticeable since sometime last year. They may be irritated, since they cannot be certain even of what the armed forces will be only 10 years from now, as a result of reductions of defense outlays in the United States."

Citing a specific example, a different senior officer said: "On one occasion, to adjust views on the type of ammunition to be used in a joint exercise, we proposed to use dummy ammunition in view of sentiments of the residents around the exercise area, and the U.S. forces simply ignored our proposal."

The SDF are perturbed by the unprecedentedly high-handed attitude of the U.S. Forces. There are voices, saying: "With strains on training costs, they are trying to increase the intensity of training. Preoccupied with this, they might have no room to think about public sentiment."

Another senior officer lamented: "Contact and coordination between Japan and the United States used to be done at the level of counterparts, like the SDF and the U.S. Army Command (at Zama). But these days, cases are increasing, wherein they say they will have to first contact the U.S. Forces Command in the Pacific in Hawaii before giving a reply."

According to U.S. military sources in Japan, serving a "notification of bad news" has already started in the U.S. Forces-in-Japan Headquarters (in Yokota). This notification is being served to the officers in their early 40s and above in age, and as these officers are busy looking for new jobs, overall morale of the forces is said to be low. Such a situation is also felt by the SDF, which is a partner in the defense of Japan. There are people expressing concern about the changes in the U.S. forces.

Adding to this, Major General Henry C. Stackpole, commander of the Marine Corps, which make up more than a half of about 50,000 U.S. forces manpower in Japan, made his "cork in a bottle" remark. The general, in an interview with THE WASHINGTON POST at the end of March, said: "The purpose of stationing U.S. forces is to prevent Japan from becoming militarist. ... In other words, we are performing the function of a cork in a bottle."

Statements or comments expressing concern about the possibility of Japan becoming a military power are nothing new in the United States, but this is probably the first time one of the commanders of the U.S. forces in Japan made such a remark, in such a clear-cut way. The U.S. Defense Department immediately announced that his remark did not represent the government view, and said: "The United States is not concerned about Japan whatsoever."

Nonetheless, the U.S. Government, in its "Concept of East Asia Strategy," presented to Congress on 19 April, made clear its position of wanting to prevent Japan from becoming a military power, stating that the Government intends "to contain the war-making capacity, which can become a destabilizing element." An SDF member quipped: "If we have to be watched, even though we are using a large part of our budget to maintain the U.S. bases, then it is no laughing matter."

This Concept of East Asia Strategy, to put it bluntly, has two faces—the U.S. Government recognizes the importance of, but will be on the alert against, Japan. There are parts in it which can be interpreted as requesting Japan to buy such exorbitantly expensive equipment as Airborne Warning and Control System (AWACS). For instance, an expression specifically mentions "urging Japan to buy as much ordinance as possible ..."

If that is the case, this is something which smells of the "idea of exporting U.S.-made equipment only in complete form" as a way of alleviating trade friction. This was the stand pursued by hardliners against Japan when there was controversy over the production of the next generation support fighter (FSX).

The changes in the Asian strategy and the reductions of the forces in Japan have started, not from the easing of the East-West relations, but from the need to cut down on military spending as a way of rebuilding the U.S. financial deficits. Are these changes bringing delicate friction to the security system of Japan and the United States?

We are concerned lest the Japan-U.S. economic friction should develop into political friction, and then into military friction.

Column Views Changing U.S. Postwar Strategy

OW2005175590 Tokyo ASAHI EVENING NEWS in English 19 May 90 p 6—FOR OFFICIAL USE ONLY

["Opinion" column by Kiyofuku Chuma, ASAHI SHIMBUN editorial writer: "Defense Against Whom? Why?"]

[Text] The basic U.S. postwar strategy to contain the Soviet Union is swaying in the winds of change in Europe. Such winds are also being felt in Japan, where the government still feels threatened by its Soviet neighbor.

The U.S. strategy is crumbling because of the demise of basic assumptions and premises. One no longer firm assumption is the strength of U.S. alliances with countries peripheral to the Soviet Union and the ability to secure their support in times of hostilities. Another is the now undependable strategy of forward deployment of America's military might in those nations and on their perimeters.

Also, the United States and many of its allies no longer seem to share a strong awareness of the need to contain the Soviet Union. Washington's pledge to defend its allies under its nuclear umbrella no longer carries weight in the face of the reduced Soviet threat. And no longer does the world feel compelled to maintain the United States as an economic power. Such new realities have tattered the fabric of NATO and the Warsaw Pact alliances.

The Soviet Union's economic burdens have been enormous. In fact, the Soviets accounted for two-thirds of the Warsaw Pact organization's manpower, upward of three-fourths of the military aircraft and more than two-thirds of the tanks. The United States, on the other hand, supplies one-sixth of NATO's manpower, a little more than a fourth of the aircraft and less than a fourth of the tanks. The two conflicting alliances are the same in name

but fairly different in substance. It is here where the Warsaw Pact has begun to crumble.

Strategic changes in the East bring about an immediate impact on the West's strategy. There is an increasing common recognition that the Cold War is rapidly nearing its end, thus putting a period to the policy of containing the Soviet Union. It is widely maintained that the Soviet Union is no longer a threat or that the Soviet Union's threat has sharply fallen off.

And changes in U.S. awareness of the Soviet threat have come to a point where Washington has doubts about the strategy of forward deployment, which calls for enormous spending.

Testifying before the U.S. House Armed Services Committee last February, Adm. Huntington Hardisty, commander-in-chief of the U.S. Pacific Forces, was cautious when he said the United States would have to be careful and prudent in coordinating its forward deployed defenses. Judging at least from Washington's plans to withdraw forces from abroad, nonetheless, it is inevitable that the strategy of forwad deployment should be significantly touched up.

Also not to be overlooked are moves toward nationalism among U.S. allies, which are rising in proportion to a replenishment of their national strength. The days have come when it is difficult for American forces to build new bases overseas. No optimism is warranted even for existing U.S. bases in the Philippines.

New Zealand's withdrawal from the ANZUS security pact involving Australia, New Zealand and the United States was the first challenge to the wisdom of the alliance and the forward deployment strategy in Asia.

The Warsaw Pact's de facto collapse is naturally changing the very nature of NATO. Will this tendency stop with the collapse of the East bloc alliance? Probably not, and U.S.-Japan security setup, which is similar to the mutual defe premise of NATO, will once again come into question.

"Japan has been able to remain a member of the West because it has been a member of an alliance which is glued together with the adhesive of Soviet threat," said Yonosuke Nagai, a professor of international affairs at Aoyama Gakuin University. "When this adhesive is no longer required, then what will serve as the axis for the structure of U.S.-Japan relations?" It is certainly not essential to attach importance to military cooperation at a time when the role of military might has fallen off worldwide. Prompt U.S.-Japan talks are required.

The Japanese Government, however, is basing its current defense buildup on the premise that the Soviet Union is still a threat. Even if the United States only partially withdraws from Japan there is no doubt that the importance of Japan's Self-Defense Forces in Asia will rise to a considerable degree. If their strength is increased Japan's military power will grow, inviting suspicion of Japan's intentions not only from Asia but from the rest of the world.

The postwar axes, including the Cold War and containment policy, have begun to change. Japan must move positively amid these changes, instead of sitting on the fence.

U.S.-Soviet Summit 'Likely' To Affect Japan

OW0106003890 Tokyo THE JAPAN ECONOMIC JOURNAL in English 2 Jun 90 p 3—FOR OFFICIAL USE ONLY

[By staff writer Akinori Iwaki]

[Text] The U.S.-Soviet summit, to start May 30 in Washington, will likely place Japan in the unusual position of deviating from the hand-in-hand pursuit of common diplomatic goals with Washington, observers in Japan say. In the field of economic relations, Tokyo is apparently perplexed by a need to work out a practical policy toward the Soviets while Moscow increasingly focuses its attention on the U.S. for support of its perestroyka, or restructuring efforts, according to diplomatic observers in Tokyo.

It is expected that a series of economic cooperation agreements with the U.S., including a trade pact, will be signed at the summit. This could include extending most favored nation status to the USSR. Under the circumstances, it is understandable that Moscow may feel less of a need to develop more friendly ties with Tokyo, observers say.

In order for perestroyka to succeed, Moscow will need an infusion of foreign funds. The establishment of a bank for Eastern Europe and the Soviet Union, to be set up in the spring of 1991 by the major industrialized democracies, the USSR and eight East European countries, will not be enough to meet this need. This is because in the first three years of the bank's existence, Moscow will be able to borrow only as much as its equity contribution of 6 percent, or roughly 180 million European Currency Units.

In addition, Soviet Foreign Minister Eduard Shevardnadze's visit to Japan, to lay the groundwork for President Mikhail Gorbachev's scheduled arrival in 1991, has been put off. This is considered a sign by some observers that the USSR is turning cooler toward Japan.

With the continued warming of relations between less anxious to deal with the so-called Northern Territories issue with Japan, some observers say. [sentence as published] The two nations have been arguing over the Soviet-occupied islands since the end of World War II, and have never signed a formal peace treaty.

Recently Moscow had hinted at starting to negotiate an end to the issue in return for Japanese help in developing the Soviet Far East, but both sides remain far apart.

The summit is likely to bring about fresh debate in Japan on the future security role the country will play in the Far East.

With the U.S. and USSR apparently set to agree at the summit on a mutual ceiling on sea-launched cruise missiles (SLCMs), the prospect of mutual arms reductions in the Asia Pacific region is becoming brighter, says Hiromi Teratan, professor of Soviet politics at Aoyama Gakuin University in Tokyo.

During recent debate in the Diet, the ruling Liberal Democratic Party [LDP] came under increased pressure from opposition parties to reexamine Japan's basic defense strategy. That strategy has been based since 1952 on the Japan-U.S. Mutual Security Treaty, linking the two nations together to counter the Soviet military threat.

But the LDP government, which throughout its history has strongly supported the treaty, refuses to recognize that the Soviets are no longer a threat in the Far East. A Foreign Ministry official says arms talks on Asia would naturally lead to a review of the forward deployment strategy of U.S. forces in the Asia-Pacific region. But the Japanese Government is highly suspicious that even while Soviet forces are being reduced in Europe, their strength in Asia remains the same or is even growing. So it is unlikely that the U.S. and Japan, under these circumstances, would respond favorably at present to arms reduction overtures by the Soviets, the official added.

Motofumi Asai, a professor at Nihon University and a former Foreign Ministry diplomat, has attracted public attention by proposing in his recent book that the Mutual Security Treaty be abolished on the grounds that the presence of U.S. troops in Japan hinders peace initiatives.

But while the "Soviet threat" posture of the LDP and the Defense Agency is out of date, the treaty should remain intact, says Masamichi Inoki, former president of the National Defense Academy, which trains leaders for the Defense Agency and the Self-Defense Forces. The bilateral defense arrangement is indispensable for the peace and stability of the region, he asserts.

The changing world situation is likely to force Japan to rethink its foreign policy, which for decades was based upon its close ties with the U.S. Inoki, however, adds that Japan and the U.S. cannot become indifferent toward one another. The two must seek to alleviate bilateral tensions, he adds, in order to avoid confrontation in the future.

JCP Issues Statement on U.S.-USSR Talks

OW0406101990 Tokyo JPS in English 0913 GMT 4 Jun 90—FOR OFFICIAL USE ONLY

[Text] Tokyo Jun 4 JPS—Mitsuhiro Kaneko, head of the Secretariat of the Japanese Communist Party [JCP], issued a statement on June 2 on the published agreement reached between U.S. President George Bush and Soviet President Mikhail Gorbachev in their summit talks. The full text of Kaneko's statement follows:

On June 1, the second day of the U.S.-Soviet summit talks in Washington, U.S. President George Bush and Soviet President Mikhail Gorbachev signed a joint statements and agreements on the control and reduction of arms. They included a joint statement on the basic agreement on the Strategic Arms Reduction Talks (START), and on other issues.

The summit talks are still underway, and at this point of time it is impossible to comment on the talks as a whole. But we welcome the fact that a basic agreement on START has been reached and the way has been paved for a treaty on a reduction of some proportion of nuclear weapons to be signed by the end of this year. Following the last treaty on the abolition of intermediate-range nuclear forces, this is another step for nuclear disarmament.

But the problem is that the agreement considers that it will take seven years to complete the scheduled reduction, and that the United States and the Soviet Union will still possess a huge stockpile of nuclear forces even after the reduction is implemented as scheduled. In addition it puts no restriction on the qualitative improvement of nuclear weapons under the heading of modernization.

In order to eliminate the threat of annihilation of the human race by nuclear war, it is first of all necessary for the United States and the Soviet Union to make a clear renunciation of the nuclear deterrence policy which has underlain the nuclear arms race between the two countries, and make it their urgent task to prohibit and eliminate nuclear weapons, making a political agreement between themselves for this purpose.

In this regard, recalling that in their 1985 talks, the U.S. and Soviet foreign ministers decided to make the elimination of nuclear weapons the goal of their negotiations, we call on the two countries again to be faithful to their international promise.

The two heads of state also confirmed that an agreement on European conventional forces reduction (CFE) will be reached by the end of this year. But no advance was made on the disbanding of the two military blocs which have divided Europe into two hostile camps. This is the primary reason why the United States and the Soviet Union continue to deploy huge forces of nuclear and conventional arms in Europe. It points to the fact that it is urgent for the two military blocs, the core of the "cold war" system, to be dissolved in response to the drastically changed situation in Europe.

This is true of the German question. Since the opening of the Berlin Wall in November of last year, the JCP has proposed that it is an urgent task, and which contributes to the peace of the world, for both East and West

Germanys to withdraw from their military blocs and become neutral entities. Our conviction has been reaffirmed anew, that such a step would be the legitimate and just solution to the German question, an issue on which serious differences of opinion exist between the two heads of state in these summit talks.

Other Countries

* USSR Requests Japan's Help in Coal Project

902A0164A Tokyo NIHON KEIZAI SHIMBUN in Japanese 12 Apr 90 p 11—FOR OFFICIAL USE ONLY

[Text] The Soviet Union has asked Japanese industrial circles to furnish equipment and funds amounting to Y200 billion to cooperate in its fuel coal (common coal) development in the Far Eastern and Siberian district. The Soviet Union plans to introduce various machines and equipment from Japan for increased production at coalfields and deliver to Japan as collateral 3 million tons of common coal annually over 10 years. It has already begun consultations with major trade companies, and on 11 April visiting Soviet Coal Industry Minister Shchadov asked the electric power industry as well to cooperate and promise to accept delivery of common coal from the Soviet Union. The Soviet Union regards this project as one of major programs envisaged in its new five-year plan to begin next year. The project is thus likely to be looked upon as an economic mirror through which we can predict the course of future Japanese-Soviet relations.

The major part in this Soviet plan to increase common coal production will be assumed by Tugunui [as published] Coalfield located south of Lake Baykal. Its coal deposits are estimated at 400 million tons. Last year the coalfield actually produced 1 million tons, and by introducing equipment from Japan the Soviet Union plans to hurriedly raise the coalfield's annual production to 9 million tons and develop it into a substantial source for the acquisition of foreign currency in the future with the Asian market in mind.

In its deal with major trade companies, the Soviet Union seeks to introduce excavating machines, a coal-dressing plant (capable of processing 9 million tons annually), and various conveying machines and to loan funds for their introduction. Sumitomo, Marubeni, Nichimen, and Nissho Iwai Corporations appear to have begun negotiations on coalfield surveys and cost estimates for these machines.

Concerning its contact with the electric power industry, the Soviet Union, through the Federation of Electric Power Companies (chairman: Sho Nasu, president of the Tokyo Electric Power Co.), asked the industry to cooperate and promise to accept delivery of the Soviet common coal, which is to become the source of foreign currency earnings for the repayment of machine costs. In response, the electric power industry transmitted the notion that each firm involved will conduct separate consultations with the Soviet Union. In Japan, Tokyo Electric Power Co. has already decided to purchase 20,000 tons of coal to use for fuel on a trial basis, and other firms intend to study the proposal while watching developments in the field of power generation.

The Soviet Union would like to complete negotiations by this summer. It actually exported 2.06 million tons of common coal to Japan in 1988. This is 7 percent of Japan's common coal imports. It intends to raise the share substantially with Japan's cooperation in helping obtain facilities and funds. As part of measures to step up exports to Japan, it has already started a project to double, by next year, the annual coal-shipping capacity of the port of Vostochnyy, a harbor facing the Sea of Japan, to 10 million tons.

As for Japan, there is some apprehension regarding Soviet reliability in terms of stable supply, and there is some reluctance to become too dependent, especially in the electric power industry. However, the prospect looms that 10 years from now the annual common coal imports by the electric power industry, which is working to increase thermal power through the use of coal, will reach 40 million tons, compared with 15 million tons in 1988. The Soviet Union thus may surface as a substantial supplier after Australia and the United States.

There are two other Japanese-Soviet joint undertakings in the Far Eastern and Siberian region which are using the same formula under which the Soviet Union introduces machines and equipment from Japan and exports resources developed with this equipment to Japan as collateral. One is the "Far Eastern Forestry Resources Development Project." (This scheme is also called the KS [Kawai & Sedov] Project and its master contract was signed in 1968.) The other is the "South Yakutsk Coal Development Project," a program to develop coal for iron manufacturing use. (The master contract was signed in 1974.) The recent development cooperation plan, when realized, will be the largest-scale joint undertaking comparable to these two projects.

* USSR Aiming for Initiative on Korean Peninsula

90A30036A Tokyo NIHON KEIZAI SHIMBUN in Japanese 28 Apr 90 p 8—FOR OFFICIAL USE ONLY

[Article by Nikkei Seoul reporter, Yoshikawa: "Approaching South for 'Diplomatic Relations': 'Manipulating' North Economically and Militarily"]

[Text] The USSR has started to use its influence on both South Korea [Republic of Korea] and North Korea [Democratic People's Republic of Korea] with the aim of taking the initiative in affairs on the Korean peninsula. While it approaches South Korea, on the one hand, with the avowed purpose of establishing diplomatic relations within this year, it is pressuring North Korea to establish a dialogue with the Western nations and internal reform

for North Korea, using its military and economic assistance to North Korea as a backdrop. We will examine the intention and direction of the USSR in its effort to gain a foothold on the Korean Peninsula, and thus to seek a new evolvement in the Asia-Pacific region.

Former Soviet KGB (State Security Commission) agent, Major Levchenko, who once engaged actively in intelligence with Japan as a springboard and subsequently obtained political asylum in the United States, secretly visited South Korea in late March under U.S. instructions. He contacted South Korean intelligence authorities in Seoul, and gave lectures on recent intelligence activities by the USSR.

Regarding the Soviet-South Korea rapprochement, the United States ostensibly presented a posture of welcome, saying: "It is beneficial for the easing of tension on the Korean peninsula"(U.S. Embassy in South Korea), on the one hand, but it is sensitive concerning a possible leakage of information about the West to the USSR via South Korea. South Korea is also cautious about the disclosure of information to North Korea, and has begun a close exchange of information between experts in Japan concerning details of Soviet intelligence.

Double Response Toward South Korea

The South Korean Government is earnestly attempting to interpret USSR moves prior to negotiations with the Soviet Union concerning the establishment of full diplomatic relations. During the visit to the USSR in late March by Chairman Kim Yong-sam of the Democratic Liberal Party (government party), the USSR side did its best to please South Korea by arranging a meeting with President Gorbachev, but attached conditions for economic cooperation to the question of establishing diplomatic relations in the actual negotiations. It thus displayed a double response.

The South Korean Foreign Ministry takes the view that "the establishment of diplomatic relations is an ace card for the USSR, and that it will not easily give it up." The recent statement by South Korean authorities that, "in any negotiations concerning diplomatic relations, we will request an apology from the USSR regarding the Korean Air Lines shooting incident in 1983" indicates South Korea's determination not to be drawn into the USSR's pace.

There has been a rumor in South Korea recently that perhaps the USSR will curtail exports of crude oil to North Korea. It originated with a South Korean media interview in the Soviet Union with a North Korean student who sought asylum in South Korea. He stated: "Because crude oil imports from the USSR to North Korea have been reduced, there is a serious energy shortage, and mothballed charcoal-burning autos have begun to be used again."

The fact that North Korea is held in check economically by the USSR is quite similar to the case of the Republic of Lithuania. In military terms also, the USSR has an impact that is unmatched by China.

The move toward establishment of diplomatic relations between the USSR and South Korea conflicts directly with the position of North Korea, which opposes the existence of "two Koreas." Behind the fact that, while the North Korean side has frequently issued restraining comments that "it is inconceivable that the USSR would support a 'two Koreas' policy," it has refrained from any direct criticism of the USSR, lies a history of economic and military dependence on the USSR.

Restraint Through Use of Internal Information

The USSR is seen as having recently started to use leakage of North Korea's internal affairs as a means of restraining North Korea. For example, the Soviet media has reported since early April that "the Korean war started with the invasion of the South by the North side," and that "Chairman Kim Il-song was not the general commander of the anti-Japanese partisans, but a mere captain in the Soviet Army."

The intention of the USSR's full-fledged efforts toward a rapprochement with South Korea without allowing a word of protest by North Korea is viewed as an aim to gain an initiative in the building of a new framework concerning the Korean peninsula. Dr. Mikhayl Nosov, who is in charge of Korean affairs at the U.S.-Canadian Research Institute in the USSR, describes the significance of the Soviet-South Korea rapprochement as follows: "The USSR has gained channels to both the North and South ahead of the United States through its rapprochement with South Korea."

Seeking To Guide North-South Dialogue

To the USSR, which has begun to orient itself toward the Asia-Pacific states, the easing of tension in the Far East region and a reduction of its military burden are urgent tasks. Matters of direct interest to the USSR, such as the reduction of the U.S. Forces stationed in South Korea and naval disarmament, are involved. Following an agreement to cut back military forces on its border with China, the focus of Soviet interests in Asia is now shifting to the Korean peninsula.

Although South Korea and North Korea continue their mutual distrust and military confrontation, conditions have begun to develop for the USSR to create an atmosphere for North-South dialogue. Nosov stated: "In a sense, the USSR is approaching South Korea in order to realize a North-South dialogue." Thus, the Soviet-South Korea rapprochement itself has the significance of a "shock treatment" for North Korea, which is noted for its rigid posture of opposing any dialogue.

On the academic level, the Soviet side is already calling for contacts in the form of international seminars for scholars from both South and North Korea. In addition, on the economic level, a plan for North-South joint ventures with Khabarovsk is beginning to materialize.

Radio Moscow recently introduced, and commented on a plan for North-South exchange to "contribute to stability on the Korean peninsula," including the joint oil survey announced by South Korea.

The continuing contacts in Beijing between diplomats from the United States and North Korea are not producing any notable results, and China is leaning increasingly toward North Korea. Given these facts, the possibility of a major impact by the USSR's "new diplomatic orientation" on the Korean peninsula is not at all negligible.

AKAHATA Editorial Cited on Tiananmen, JPS

OW0406111490 Tokyo JPS in English 0937 GMT 4 Jun 90—FOR OFFICIAL USE ONLY

[Text] Tokyo Jun 4 JPS—June 4 is the first anniversary of the Tiananmen incident, armed suppression in Beijing. Today's AKAHATA carries an editorial entitled "One Year Since the Tiananmen Incident and the Standpoint of the Japanese Communist Party". The editorial says (in gist):

"This is one year since the outrage of the Chinese authorities who threw heavily armed martial law troops, with tanks, into Tiananmen Square, causing numerous deaths and injuries, by firing at students and citizens who were calling for democracy. Despite the lift of martial law in Beijing last January, a state of siege without martial law still continues to this day.

"The brutal act of the Chinese authorities is alien to socialism, no matter what they insist upon. Freedom and democracy should be defended under whatever conditions—this is the basic standpoint of scientific socialism. The spirit to protect human rights is an asset attained by humankind, and must be developed further. But, based on the thinking that 'political power grows out of the barrel of a gun,' a thought which has nothing to do with scientific socialism, the Chinese authorities did what should never be done. They trampled underfoot the right of mass action, which is guaranteed by the Chinese Constitution. In this is found no sense of socialist democracy.

"No sooner had the Tiananmen incident taken place than the Japanese Communist Party [JCP] 'resolutely denounced' this 'extreme outrage' (in the statement of the Central Committee on June 4, 1989). Now the JCP is condemning the Chinese leadership for not reflecting on the armed suppression and for continuing to suppress human rights.

"The Japanese Communist Party can do this, because it has resolutely struggled against the Chinese leadership's attempt to impose its 'political power grows out of the barrel of a gun' arguments, and has no relations with them for 23 years. Underlying this is the firm standpoint of the JCP to defend and develop freedom and democracy, in the past, present and future, as laid down in the JCP's 'Manifesto on Freedom and Democracy.'

"The attitude of the government, the Liberal Democratic Party and other opposition parties is in sharp contrast to that of the JCP.

"The Japanese Government played a role in watering down condemnation of the Chinese authorities, in the arch summit of the Western powers after the Tiananmen incident. Since the beginning of this year, the Japanese Government handed to the Chinese authorities a criminal who had hijacked a Chinese civil aircraft, despite strong public opinion inside and outside the country that he should be tried in Japan. In the general meeting of the Asian Development Bank, Japanese Finance Minister Ryutaro Hashimoto appealed for a resumption of the supply of finance to China. The Japanese Government has given priority to economic interests, rather than for human rights.

"The LDP, the Japan Socialist Party, the Komeito Party and the Democratic Socialist Party have a long history of following China, and this made them 'cowards' for condemning the Chinese authorities for the Tiananmen incident, just as the Japanese mass media said. These parties, however, used the Tiananmen incident to launch demagogic attacks on the Japanese Communist Party. And last September, they sent a delegation of the 'Japan-China friendship parliamentary league", led by Masayoshi Ito (LDP), to China. They met and held talks with Li Peng and Jiang Zemin, and then with Deng Xiaoping. They willingly played the role as spokesmen for the Chinese claiming that the bloody repression was 'not a fact but demagogy.' After that, Komeito Party Chairman Koshiro Ishida in talks with Prime Minister Toshiki Kaifu on May 15 demanded a thaw on the frozen 3rd yen loan because martial law had been lifted. The JSP sent its party delegation (led by Secretary General Tsuruo Yamaguchi) to China mid-May. In talks with Jiang Zemin, they made no refutation at all of Jiang's justification of the armed repression, and they reopened party exchanges between the JSP and the Communist Party of China, which were frozen after the Tiananmen incident.

"On the basis of principle, the JCP has been denouncing the armed suppression in Tiananmen, and an immediate end to the politics of suppression of human rights".

No Tae-u Visit Hailed; Meaningful Deeds Urged

OW3005022090 Tokyo ASAHI EVENING NEWS in English 28 May 90 p 6—FOR OFFICIAL USE ONLY

[ASAHI SHIMBUN 27 May editorial: "Forging a New Asian Framework"]

[Text] South Korea's President No Tae-u fulfilled his three-day mission to Japan and provided Japanese with an opportunity for renewed soul-searching. The visit was aimed at closing the unsettled historical account between the two nations, and, on that basis, embarking on developing a sincere partnership as the 21st century nears. Political developments and public opinion in South Korea will be the main indications of whether the

mission has accomplished these aims. But, at least for Japan, No's visit has had deep significance. It is hoped that the newly created foundation of understanding will become the base for more friendly cooperation in the bilateral economic and cultural relations.

Bilateral cooperation in the past seemed to have been restricted to being a matter of concern only to the two nations. But No's visit served as an opportunity for both nations to usher in a new era of efforts to promote peace and prosperity in the entire Asian region.

Both having become formidable economic powers, Japan and South Korea greatly influence the world economy, in particular, the economies of neighboring Asian nations. At a time of historical world transformation, touched off by changes in the Soviet Union and Eastern Europe, the global community has begun to seek a new framework for an international order to replace what existed during the Cold War. In keeping with the current worldwide trend, East Asia, including Japan and South Korea, is now faced with the coming new era. Against such a background, President No referred to his pet proposal for a Northeast Asian Peace Conference. Japanese Foreign Minister Taro Nakayama, likewise, proposed to the visiting South Korean foreign minister a meeting of Asian foreign ministers.

Nakayama's proposal was lacking in definition of themes and the nature of such a conference, as well as guidelines for participants. In spite of this, there is an element of truth in his contention that while leaders of European nations have begun working on a new post-Cold War framework, there is no such effort being made in Asia.

Concepts such as "European community" and "a European common house" are often heard. But a comprehensive concept of "Asia" masks the reality that Asian nations are actually not a uniform group. Unlike Europe, Asia is characterized by a collection of bilateral relations as demonstrated by the Japan-U.S. Security Treaty, the U.S.-South Korea Mutual Defense Treaty, and the agreements on friendship, cooperation and mutual aid between North Korea and the two Communist giants, the Soviet Union and China.

The suggestion to create a situation where countries in the region can join hands is one idea for fanning a new breeze to cool off hightened tensions and stimulate cooperation. Nakayama proposed the inauguration of an Asian foreign ministerial meeting in parallel with the UN General Assembly meeting this fall. However, time is running short, and how will the foreign minister propose to obtain the understanding of all likely participants in time?

One of the crucial problems in Asia's peace efforts is the North-South confrontation on the Korean Peninsula. Given that there is no diplomatic tie between the two Koreas, it will be a difficult task just to get all parties to sit at the same table.

The situation of the Korean Peninsula, a place long referred to as the "front line of the Cold War," has drastically changed as a result of the improved relations between South Korea and the Communist powers, the Soviet Union and China. On the other hand, such moves have increasingly sensitized the Korea in the north.

In advocating a peace conference among northeast Asian nations, President No noted that such a plan needs time to materialize since it will also depend on the maturing of the attitude of North Korea. He then emphasized that a first step should be to seek cooperation "among possible countries and in possible areas." On another occasion, No said to this end that he does not want to see North Korea isolated. Nonetheless, it was recognized that the restoration of peaceful relations between two Koreas is no easy task.

The Japan-South Korea summit talks confirmed the importance of continued North-South dialogue and demonstrated the indispensability of strenuous, though time-consuming, efforts. It goes without saying that, in initiating a call for regional cooperation among Asian nations, Japan should not forget its past misconduct as an aggressor in many other Asian nations and should be forthright about it.

Despite Japanese Prime Minister Toshiki Kaifu's contention in concluding the summit talks that the issue of the past has been completely settled, it is important to remember that the repeated words of apology by the prime minister and the Emperor to the South Korean president marked just the beginning of the actual deeds to follow to show what they actually meant by such words.

South Koreans are keeping a close watch to see how Japan will translate its words into meaningful deeds. As Japan intends to use the visit by the South Korean president as leverage to take stronger initiatives in contributing to the stability of Asia, it should not be forgotten that attention on Japan's future behavior is not coming only from across the Genkai Straits.

Domestic

* LDP Secretary General Ozawa Talks of Future

WA2205031490 Tokyo SHUKAN GENDAI in Japanese 12 May 90 pp 40-43—FOR OFFICIAL USE ONLY

[Interview with Liberal Democratic Party [LDP] Secretary General Ichiro Ozawa by political commentator Yoshiya Kobayashi: "Candy Sucking Opposition Parties Are Inexcusable!"; date and place of interview not given; passages in boldface denote boldface type in original; first paragraph SHUKAN GENDAI introduction]

[Text] Former Deputy Prime Minister Shin Kanemaru, who is also chairman of the Takeshita faction, is reported to have commented on the LDP's neo-new leaders in the following manner: "Tsutomu Hata will be able to lead in time of peace, but Ozawa will be needed

for turbulent times." At present, an unsettled situation persists domestically and internationally. Ozawa, the tough 47-year-old secretary general, seemed confident in thinking that this is his chance. Casting aside his usual brusque manner, he talked about his intentions and determination loquaciously.

A Japan That Neither Says "Yes" Nor "No"

Kobayashi: First of all, regarding the structural impediments initiative [SII] interim report, the U.S. demands were quite severe. How did you take it?

Ozawa: I am basically against the SII talks. Japan and the United States naturally have different structures; otherwise, we would be the same. Moreover, because of our different social structures, we are independent of each other. We should not force our countries to become too close. However, we cannot seriously fight against the United States. Since the SII talks are symbolic of Japan-U.S. friction, we need to deal with them head on. **In order for us to be able to say "no," we must first put in practice what we have promised. Our fault has been taking the United States for granted.** When a child grows taller than his parents, he can no longer be excused for taking his parents for granted. Japan is like this child, who is expected to assume responsibilities, but is not aware of this yet.

Kobayashi: But we have to submit figures in the July final report on the new 10-year public works plan. Also, a revision of the Large-Scale Retail Stores Law will be difficult under the "lopsided" power situation in the two houses of the Diet. You probably worry over our accountability, but can we keep our promise to the United States?

Ozawa: We can take care of those matters. However, there are other problems between Japan and the United States, such as the trade balance and liberalization of the money markets. We have to take care of these problems in order to avoid further friction.

Kobayashi: But the U.S. demands are more like a plan to restructure Japan. These demands involve rights, such as strengthening the power of the public prosecutors offices and giving the National Land Agency concentrated power to deal with land problems. According to sources, our negotiators resisted this by saying that it constituted "interference in domestic politics" and tried hard to bargain with the United States.

Ozawa: **What the United States wanted was for Japan to do its share with a sense of balance. But when the government negotiations began, things became awkward.** The United States cannot criticize free trade and free competition, but she must find excuses to report to the Congress and people; therefore, they had to blame Japan for its structural impediments. I think the United States did it with reluctance.

Kobayashi: Meanwhile, there will be a European Common Market in 1992. It will have a population of 400 million—the largest world market, surpassing the United States and Japan. We will be put into a difficult situation. In order for us to compete, we need to form a "coalition of second and third powers."

Ozawa: True. But the United States will not lose its international influence easily just because the European Common Market is formed. Moreover, the fact that America has its roots in Europe makes it very important for us to work in harmony with her. We must try not to be "excluded," for we are the only yellow faces at the summit. (laughter)

Since Ozawa assumed his position as LDP secretary general last year at age 47, he has won a reputation as a "master of tact." His accomplishments include the LDP victory in the last election, the passing of the 1989 amended budget and related bills, and the government draft regarding the SII. In addition, in 1988 he was sent to the United States by Takeshita as his deputy chief cabinet secretary to smoothly negotiate at the Japan-U.S. construction conference. He is reported to have strong ties and an information network in the United States. Based on his well informed channels, he was able to talk about problems with the Soviet Union.

Ozawa Preaches "Patience" To the Soviet Ambassador

Kobayashi: Does Kaifu's weak administration have anything to do with the current confused Japanese economy resulting in "triple low prices"?

Ozawa: It's not because of Mr. Kaifu. The biggest problem is whether or not the LDP can maintain its policies after it became a minority in the Diet Upper House election last year.

Kobayashi: There is a rumor that when bank interest rates went up for the third time at the end of last year, the Finance Ministry interfered with the Bank of Japan, which triggered a fall of the yen. A base rumor has it that Finance Minister Hashimoto did not like the way Bank of Japan President Mieno handled the matter and turned down his proposal. (laughter) The rumor alleged Hashimoto's "style" caused the yen to fall.

Ozawa: That's a "story" which was concocted afterwards. (with a wry smile)

Kobayashi: By the way, you are scheduled to visit the Soviet Union in July. Why July? Is it because you want to first observe what will happen during the May U.S.-Soviet summit and the early July Communist Party congress in the Soviet Union?

Ozawa: That's right. But I am not that eager to go. **Previously, I said to Ambassador Solovyev: "I visited your country about 20 years ago." He said: "How was Moscow then?" I said: "It was a cold, dark, and unpleasant place." Then the ambassador said: "But it has changed a little now."** (laughter)

Kobayashi: I get the impression that the Soviet Union is not paying too much attention to Prime Minister Kaifu,

because it invited former Secretary General Abe this January and is now inviting you to the Soviet Union. (laughter)

Ozawa: Nothing like that. Perhaps the Soviet Union wants to discuss things on a party level first and then bring it up to the government level.

Kobayashi: When you go to the Soviet Union, you will no doubt discuss the "Northern Territories." Former Deputy Prime Minister Shin Kanemaru not only mentioned the return of two islands, but also said "we could buy them back," causing a big stir. When you talk to President Gorbachev, how far will you go in your discussions with him on this problem?

Ozawa: I cannot say much at this point. I can only say that we will do our best. The present situation does not allow much discussion. We have to alter our approach.

Kobayashi: You spoke of "not adhering to existing principles which require discussing political and economic matters together." But former Deputy Prime Minister Miyazawa criticized your statement as "a rash act."

Ozawa: It is good to have varied opinions. (laughter) However, they wanted to talk with us, so we are going. Because the Soviet Union obviously is a big neighboring country, we have to keep the lines of communication open to protect our peace and security. If we need economic cooperation, let us cooperate. The important thing is that we remember our basic line.

Kobayashi: I see. How do you think the Soviet Union is going to change now that they have President Gorbachev? We are still witnessing the Soviet "dictatorship" in its economic sanctions against Lithuania.

Ozawa: **I think this year will be crucial for Mr. Gorbachev's reform. If his reform succeeds, Russia will have true Western-style market economy, although it may take some time.**

Kobayashi: I understand they have decided to introduce market principles such as laws on ownership.

Ozawa: But they seem to be having problems. Their election reflected confusion among candidates and voters who were inexperienced. **Even Ambassador Solovyev remarked: "Elections require a lot of work." (laughter) So I said to him: "That's inevitable. It takes a great deal of patience. If you think it's so difficult, hire me to be chairman of the election policy committee of your Communist Party."** (laughter) I guess we all have to be persistent in overcoming difficulties.

Kobayashi asked Ozawa, "Recently Prime Minister Kaifu often has referred to his American route. Is there really such a route?" Ozawa, who is considered a "tough negotiator," grinned and with a wry smile said, "I don't know." This smile made the reporter feel uneasy.

Opposition Parties Should Not Be Allowed To "Stay Out of It"

Kobayashi: Although your party does not have a majority in the Upper House, your "new tactics" in dealing with the 1989 revised budget and related bills defeated the up-and-coming Socialist Party [JSP]. Why did you use "drastic measures"?

Ozawa: I wanted the opposition parties to get serious. **I told them to get their act together now that they won the Upper House election. They can no longer just talk without any action. I said: "If you want to keep on sucking candy, then give the LDP 20 of your members in the Upper House. That way you can stay the way you are."** (laughter) A political party cannot be allowed to remain passive.

Kobayashi: But the four opposition parties are still asking for a 1990 budget revision, setting the abolition of the consumption tax as its premise.

Ozawa: That's what they do all the time; they "oppose" (a wry smile) although they are not really against it. You see, they are difficult to work with.

Kobayashi: I understand you are looking for new rules for a new "framework" in the Diet. Within the JSP, Mr. Tanabe, who communicates well with the LDP, was chosen as vice chairman; the Democratic Socialist Party's [DSP] Ouchi, who is regarded as LDP-oriented, also became chairman. Perhaps we can expect a change in their dealings with the LDP.

Ozawa: Not really, because discussions are finalized within the formal party organization. However, the JSP, being very unpredictable, may decide on a drastic change in basic policies, such as foreign affairs, national security, and education. In reality, Komeito and the DSP are closer to the LDP. Therefore, as long as basic policies remain the same, we will team up with anyone—the JSP or Komeito-DSP.

Kobayashi: Recently the term "Kon-Chiku-Sho" [a construction using the Chinese-style readings of the first characters in the surnames of Kanemaru, Takeshita, and Ozawa] has become popular. The public views Kaifu as merely a puppet prime minister, because Takeshita is doing the diplomatic work; Ozawa is handling the opposition parties and negotiations with the United States; and Kanemaru is working behind the scenes, stirring up public opinion, such as in the case of his statement on return of two islands of the Northern Territories. If recent rumors regarding a "long-term Kaifu administration" materialize, Miyazawa, Abe, and Watanabe will lose their opportunities for power; consequently, Ozawa may become the top contender in the post-Kaifu situation. In that case, will Finance Minister Hashimoto be his strongest opponent?

[Kobayashi continuing] Finally, regarding the Kaifu administration. So far the "definite opinion" within the LDP has been Abe succeeding Kaifu, but former Deputy

Prime Minister Kanemaru recently talked about a "continued Kaifu administration," saying "why not go beyond his term?" (which will expire in the fall of 1991) Kanemaru's remarks have caused a big stir. It looks as though Mr. Kaifu has hurdled the SII interim report. What do you think his next hurdle will be?

Ozawa: Precisely election system reform. He needs to commit himself to it. **Mr. Kaifu has held high his slogan of political reform. Now is the time for him to tackle it at all costs.**

Kobayashi: Otherwise, he will be out of office? On the other hand, Mr. Kanemaru reminded former Prime Minister Takeshita: "Forget about your political comeback. It will go against generation change." Are they no longer allied?

Ozawa: The times will decide who should take charge. Kanemaru and Takeshita are relatives, so I think they can speak frankly to each other. (said with a wry smile)

* USDP Seeks To Be Catalyst for New Party

902b0096A Tokyo NIHON KEIZAI SHIMBUN in Japanese 1 Apr 90 p 2—FOR OFFICIAL USE ONLY

[Unattributed "Seismometer" column]

[Text] "From adhesive [force] to detonator [explosive force]"—In the 13th year since its formation following a break from the Japan Socialist Party [JSP], the United Social Democratic Party [USDP] has put its existence on the line in a display of intense activity. With the major victory of the JSP and the defeat of both the Clean Government [Komeito] and the Democratic Socialist Party [DSP] in the lower house elections, the opposition coalition that tried to play the role of adhesive force is on death's door. The USDP now seems to be searching for an escape route by acting as a detonator in forming the "Unified New Party [Rengo Shinto]" under the aegis of citizens' groups and the Rengo [Japanese Trade Union Confederation], the largest organization in Japan's labor world. However, the mini-party USDP is at a crossroads, with many harboring the coldhearted view that one of these days it will be at an impasse and be forced to reunite with the JSP.

"The aim is to form the Unified New Party in time for local elections next year"—delegate Satsuki Eda's face was unusually flushed as he pleaded for a fresh marshalling of socialist vigor at the Third National USDP Delegates Convention held in Tokyo at the Zenkyoren Building in Hirakawa-machi on 26 March. That was the anniversary of his late father Saburo's break with the JSP 13 years ago and the anniversary of the formation of the USDP 12 years ago. As an added little extra, it was also Mr. Eda's wedding anniversary.

"It makes no sense for the USDP to continue on in today's difficult circumstances for, say, the next five to 10 years." Hearing these words from General Secretary Abe who was pleading for a sense of crisis to be felt, Mr. Eda, biting his lip, said, "If we include time for the (Socialist Citizens Coalition) [Shakai shimin rengo], it'll be 13 years. I have the feeling things will be very, very slow."

One month before this convention which worked out the organization of the Unified New Party, the USDP and the Progressive Party [Shimpoto] agreed to form a joint faction in the lower house. The four USDP members of the lower house, in a formula for lining up with the various factions, were divided into two groups of two each: "JSP-constitutional preservation" and "DSP-national coalition."

Of course there was controversy, expressed at a conference of the lower house delegates held immediately after the lower house elections. It came not just from the four members of the lower house, but also from candidates who had lost in the election:

"The numerical difference in the lower house membership between the JSP and the DSP is too great. Is it meaningful to divide the USDP membership into two factions in order to play the role of an adhesive force?"

"So what, four people in the lower house will be blatantly ignored even if they do form factions. It's better to integrate those factions into the JSP."

"This can only be to the advantage of the JSP. There is uneasiness, but we ought to go with independent factions."

"That's all well and good, but a coalition of four people will be unable to ask questions of the lower house budget committee."

At the conclusion of this give and take the USDP decided to move forward independently with the small factions. However, the Progressive Party suggested to the USDP house members who had retained their seats that a combined faction with the Progressive Party be created within the lower house in order to question the budget committee; this ultimately resulted in a Progressive/USDP faction.

However, the aim of the lower house faction formed with the Progressive Party was not simply to qualify to ask questions of the lower house budget committee. The ulterior motive was that the USDP wanted to gain the opportunity to animate the interchange between the other "mini" parties and its faction and ultimately to move toward the formation of a new party.

In mid-March, a joint study group of the Progressive/USDP faction and the Rengo Sangiin [of the upper house] convened in Oiso-machi in Kanagawa Prefecture to begin formulating a strategy.

There is also the view regarding the USDP's making this kind of move that "the Unified New Party is the same concept for a new party based on the JSP, DSP and the USDP that the former JSP General Secretary Tanabe is secretly aiming for. Because Mr. Tanabe and Mr. Eda are

in contact on this and moving forward, it is not altogther mere skywriting," (JSP spokesman). But there are more voices who dismiss this as "a four-man 'little household' that can now at least accomplish something. Mr. Eda is at best conspicuously out of the main stream," (a labor spokesman). The DSP is itself explaining that "the true aim is to join hands and to try to occupy a position of strength more than it is to form a new party or to reunite with the JSP."

After it was decided in late February to form the new faction with the Progressive Party, Mr. Eda conferred with JSP Chairwoman Doi. It is said that Chairwoman Doi suggested in addition to proposing a joint faction with the JSP within the lower house that if the USDP were to reunite with the JSP, Eda should prepare for the posts of a vice committee and an interior vice committee chairmanship. Thinking is widespread "that although Mr. Eda thinks it appropriate, he has declined our offer apparently on the grounds that talks are under way with the Progressive Party and that therefore the timing is premature," (JSP spokesman).

On 30 March, Mr. Eda attended a general meeting of the Wednesday Club (the former Eda faction of which Representative Tanabe was general secretary), a right-wing group in the JSP once led by Mr. Eda's deceased father Saburo. At that meeting, voices could be heard, "Hurry up and come back to us" and, "We want you to follow in the footsteps of Mr. Tanabe." Mr. Eda made a pregnant statement that, "Not being a guest at the JSP general meeting, I wanted to conduct myself in a manner befitting my responsibilities."

Mr. Eda did let slip that, "We have begun rowing the boat and are making for shore, but even I don't know what the shore looks like." Will the USDP form the nucleus of a new party? Will it gain strength, be pursued by the JSP, and make a comeback? Will it be absorbed into the JSP and the dream be destroyed? The coming year prior to local elections will be a struggle.

* Plant, Equipment Investment Continues To Grow

902A0141A Tokyo NIHON KEIZAI SHIMBUN in Japanese 13 Mar 90—FOR OFFICIAL USE ONLY

[By Nikkei editors Yoshikazu Nishioka, Hiroshi Nakajima and Hiromi Hasegawa and reporters, Seiichi Ito and Nobuhiko Kanekuni]

[13 Mar 90 p 11]

[Text] **First Half Vigorous, Second Half Short Winded?**

Business desires for facilities investments continues strong in fiscal 1990. According to NIHON KEIZAI SHIMBUN's "Survey on Commercial Facilities Investment Trends," there is an 8.7 percent increase compared to estimates for fiscal 1989. It is unusually high for a time when it is difficult to read the economic environment for fiscal 1990 and recalculated on a GNP basis, it is a trend that has been a two-digit increase for four consecutive years. Due to the sluggish stock market and rising interest rates, however, the cost of procuring investment capital has begun to change and the effect of investment in increasing supply capability has decreased depending on the type of industry. While concern over an investment slump will remain for the last half of the year, investments are being closely scrutinized directed toward extending Heisei prosperity.

"If we wanted to, we could take orders three years in advance before delivery," (Toshiba Machine Co.). The strong demand for plant machinery and equipment is due to the great upward revision over the past one or two years in the anticipated growth rate hoped for by industry. In a company survey by the Economic Planning Agency, the forecasted growth rate over the next three years will rise higher than from 1987 to fiscal 1989.

At a time of recovery from the high yen slump, emphasis was quickly placed on labor-saving investment without understanding the real demand. Once confidence was restored, industrties began to embark on investment for increased capability and structural conversion. New plant facilities for the auto industry and the decision on a establishment of a new ethylene center for the petrochemical industry are symbols of this trend, and the continued growth in construction investment suggests an economic renewal.

Rising Capital Costs

The accelerating trend in fiscal 1989 has carried over into fiscal 1990. It is normal that the momentum for facilities investment, which had a great inertial moment, will not come to a complete stop. In fact, the unmet demands of the fiscal 1989 program is piling up in the machine industry. There are areas where the balance of supply and demand has crumbled, such as paper and pulp, food stuffs, and semiconductors, but there is no mistake that a plateau will continue for the first half of this year.

The problem is the last half of the year. In the "Survey of Company Short-term Economic Observations" recently published by the Bank of Japan, the market judgement of major companies for the summer is that it has peaked and increases in company profits for fiscal 1990 will not be on the level of fiscal 1989. The cost of capital, which it can be said was not even considered in the period of low interest and high stocks, is sensitive to business conditions and weighs heavily on small and medium enterprises who operate on a small margin. It will be difficult to expect for fiscal 1990 the same pattern where the initial facilities investment program pyramids every quarter. If investment in fiscal 1989 is considered, so to speak, a line drive over the fence, in fiscal 1990 it appears to fall short in front of the fence. However, it is a hit that falls in a lucky zone. Sluggish exports are playing a support role in the current market.

GNP Ratio Double That of United States

Even if the boom is prolonged, it is pregnant with the seeds of problems. With an expansion that has extended over four calendar years, there is the problem of whether or not industry is now over equipped in both quality and quantity. Especially when compared to the United States with repeated attacks in the Structural Impediments Initiative [SII] talks, this boom is conspicuous.

The ratio of commercial facilities investment to the GNP on a tangible basis, was 19.5 percent in fiscal 1987, 21.8 percent in fiscal 1988, and 24 percent in fiscal 1989. With a two-digit increase in fiscal 1990 also, this will rise to about 25 percent. Since the United States is at about a 12 percent pace, the ratio is double that of the United States.

Since the percentages of information-oriented investment and research and development investment have increased, the capital stock necessary for production, or in other words, the capital factor, unmistakably is ballooning. In the case of the manufacturing industry, however, they have not increased so much. Investment increases are returned intact as facilities increase. Both the information orientation and R&D for it are intermediately linked to increases in capability. If supply capability is compared to a dam, the water level is gradually rising.

There is also the view that since old facilities are aggressively removed to meet the demand for new products and new services, there is no reason to be afraid. Indeed although the flow of facilities investment has become a two-digit increase for four consecutive years, capital stock that will become facilities capability has only increased about 7 percent annually. Looking at the reverse side, however, the age of facilities is being reduced by that much and competitive power has been remarkably strengthened.

Note has been made of the rejuvenation of facilities in the United States which used the accelerated depreciation system of the Reagan tax reform in the last 1983-85 boom period. The U.S. facilities investment GNP ratio at that time was 11 to 12.5 percent. Japan was 16 to 18 percent. The current gap in U.S.-Japanese investment far exceeds that.

On-site Production and Proper Use

What cannot be overlooked is that Japanese companies are not relaxing their hold at home as they continue to strengthen overseas expansion. As in autos, while at the same time maintain a maximum supply capability of 2 million cars in the United States, each of the major automobile manufacturers plan an increase in domestic production by an additional hundred thousand vehicles also. The demand for "standard" vehicles is met locally while the demand for "luxury-class" vehicles is supplied from domestic facilities. In 1989 direct foreign investment by manufacturers rose to a little under $20 billion. This shows that this plan has been firmly adopted by industry.

The United States indicated its intention to make us raise government investment to 10 percent of GNP at the U.S.-Japanese SII talks. While there are various instructions for ways to use taxes, with the exit of ordinary revenue and expenditures having been shut off by the extraordinarily high savings rate there is nothing but commercial or government investment. What has clamped shut government investment is the increase in private plant and equipment investment by Japanese industry. In addition they have a shown a disinclination to produce armaments.

[14 Mar 90 p 11]

[Text] **Information-Oriented Investments Support Business**

"Information-oriented investment" centered on computers has supported facilities investment which is maintaining a high level. In an information-oriented investment survey of 100 major companies conducted together with the facilities investment survey, information-oriented investment based on the fiscal 1990 plan, including hardware equipment and software development investment, is estimated to have increased 31.4 percent over the previous fiscal year. A high level increase of about 30 percent has continued for three years.

CCN Revolution Under Way

The cause of this information-oriented investment is the result of the trend of networking making free use of computers and communications. This can be called the CCN (computer communication network) revolution. With various "zeros" as targets such as "zero distance," "zero time," "zero inventory," "zero errors," "zero vouchers," and "zero on-site workers," the wave of the revolution has spread to the whole industrial world including the finance and securities, manufacturing, electric power, service, and distribution industries. The great aim of investment is to add to competitive power against rivals by this "zero management."

In financial institutions, in addition to the wave of construction for leading regional banks, although the primary online-related equipment amounting to Y150 billion per bank has fallen a rung with major city banks, the installation of terminal equipment such as ATM's continues to be active even with major city banks. At the Hokkaido Takushoku Bank, although the primary online investment is in a lull, it still accounts for 40 percent of the total investment amount.

It is certain that in the future the walls between the industry classifications of banking, securities, and insurance will be gradually removed. In addition to Nippon Life Insurance Company spending Y70 billion to

develop online business support, and securities companies such as Nomura beginning a home buying service using personal computers for home use, new products for system trading are expanding. This is viewed not only as competition with those in the same industry, but also as an investment to compete with rivals in neighboring industry classifications.

Next-Day Delivery Spreads

Large CCN investments have been the result of relaxation of regulations in the airline industry. All Nippon Airways has invested Y50 billion in the development of online passenger reservations, and this is a system to compete with the online of Japan Air Lines. Competition has become severe with American Air Lines and United Air Lines who use powerful reservation systems and have also increased their overseas routes, so these large sums for investment are necessary.

In the manufacturing industry, the focus has been on renovation of materials flow systems and manufacturing systems (CIM [computer integrated manufacturing]).

CIM not only transmits online orders at the selling stage to the factory, but also upgrades efficiency by using a network of computers throughout from the design and development to the manufacturing stage. Systems which began in the assembly and manufacturing industries such as shipbuilding and machinery are becoming popular in all industry classifications, including Taisho Pharmaceutical Co. which has invested Y80 billion and started construction of a brand new plant with CIM as the axis, a first in the pharmaceuticals industry.

In the area of material supply, the trend for realizing drastically reduced delivery time by delivery of ordered goods the next day has been remarkably active. This has been accomplished with the installation of online terminals at business offices and with clients nationwide so that order information can be received immediately, and this has been combined with automatic warehousing, and night delivery over medium distances.

Next-day delivery service has appeared with leading companies in various industries, including Toyo Sash, Kao Corp., and Snow Brand Milk Products. Other manufacturers, and wholesalers and distributors, must introduce similar services to meet the demands of clients. This does not simply stop at expanded demand for online system equipment and software. Large-scale facilities investment in the order of Y10 billion which is unrelated to information-orientation investment is necessary to purchase land close to expressway interchanges and build distribution centers.

Unrelated to Prosperity or Slumps

The objective of CCN investment is not simply to increase efficiency, but to devise a "strategic information system" to win in the fierce competition within the industry. If a competitor creates a certain system, other companies cannot survive if they do not develop a similar system to counter it. Investment generates investment and a process of unending expansion begins. It has the special characteristic of being considered long-term investment, unrelated to prosperity or slumps.

It is estimated that CCN investments will be made on the level of Y21 trillion in fiscal 1990 on a total industries basis, including companies other than those surveyed. It is roughly about slightly more than one-fourth of the total facilities investments.

Estimated on the total of 100 leading companies, a high-level growth rate of close to 20 percent annually is forecast for the next five years. There will be an increase of over double the growth rate in total facilities investments. Even supposing the outlook becomes gloomy in facilities investments beginning the second half of this fiscal year, it appears that computers, communications, and other related investments not connected with prosperity or slumps will have the effect of minimizing any drop.

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[Text] "Worker Shortage" Plays Major Hidden Role

It has been three years since the facilities onslaught began. One big factor has been the serious shortage of workers that is widespread throughout the industrial world. In the midst of the booming domestic demand that is expanding, on the one hand, the labor supply and demand is tightening, inducing labor-saving and rationalization investments.

One example is Japan Time Share (headquarters, Tokyo), a major developer of software, which has invested Y15 billion to start construction of a general research center on the outskirts of Hamamatsu, Shizuoka Prefecture. The main part of the project such as the research building is scheduled to be completed in April of this year, and 1,500 technicians will be accommodated, but simply undertaking projects of basic research was not the objective of construction of this research center. The aim is to realize in one stroke a labor-saving system for the development of software to meet the shortage of personnel.

By introducing an automatic production system for software that has been developed independently, there can be an 80 percent savings in labor for the whole process which previously depended on labor intensive work.

Shortage of 970,000 People

With the rapid information expansion, the development system for the software industry cannot catch up. Moreover, the worker shortage is becoming more serious every year and the Ministry of International Trade and Industry (MITI) forecasts that there will be a shortage of 970,000 software development engineers in the year 2000. It cannot be denied that the need for people has begun to accelerate company facilities investment.

In the textile industry, Unitika is investing about Y40 billion over five years beginning in 1990 to undertake a program of modernization for its synthetic fiber facilities at both the Uji and Okazaki plants. Renown Inc. is also proceeding with a plan to complete a large-scale distribution facility with computer management aimed for August of next year. The electrical appliances and machinery industries have been gradually moving toward labor-saving systems and introduction of industrial robots. The amount of machine tool orders already has reached an unprecedented level and some voices have been raised that, "so long as the worker shortage in the industrial world continues, there is no fear for the time being that demand will drop," (Hamai Sangyo).

Moreover, these labor-saving and rationalization investments, instead of being a one-time phenomenon, have turned into a strategic investment aimed at the future. According to a survey by the Fuji General Research Institute, the increase in the manufacturing population for the next five years will be a scant 0.5 percent. In so far as there is an increasing trend for days off and shorter hours, Masaru Takagi, director of the Economic Survey Department, points out, "There is a substantial trend toward reduction of the labor force." The focus of labor-saving investments also has shifted from reduction in personnel expenses to how to make effective use of limited personnel.

Efforts Poured Into Provision of Company Housing

New and additional health and welfare facilities such as company housing and singles dormitories have become a major area of investment. Major companies such as Nippon Steel Corp. and NKK, one by one, are working out a large-scale program for provision of company housing. Tadano, the largest truck crane manufacturer, is building a leisure activity facility for company personnel in Kagawa Prefecture which has a gym, tennis courts, and a pool. Asahi Glass is building a dormitory for single women and Nippon Electric Home Electronics has made a singles dormitory into individual rooms and installed an antenna for satellite broadcasting.

"Job Offer Investment" Promoted

All are intended to improve health and welfare facilities linked to raising employee awareness and ensuring the ability to hire new personnel. President Ryuichi Murakami of Nippon Electric Home Electronics says, "It would be costly to raise the salary base on a par with banks, but at least, we would like housing to be superior to that of banks." How is the outflow of capable personnel to be halted and new personnel brought in amidst the serious worker shortage? Company "job offer investment" has just begun at long last.

On the other hand, it has begun to stimulate regional investment programs in hiring of a labor force. Toyota Motor Corp. has changed its previous plant location strategy of concentrated placement in Aichi Prefecture and has worked out a policy of dispersed placement of plants in Hokkaido, Tohoku, and Kyushu. This is because at the headquarters in Aichi Prefecture, the worker shortage has become so severe that the anticipated business expansion could not be accomplished.

In addition to Fanuc which is proceeding with a plan to disperse placement of software development bases such as for NC (numerical control) machine tools at six places such as Okayama and Nagoya, the software industry also is accelerating the trend to move out to regional cities because it is difficult to hire sufficient personnel in big cities.

According to a survey by MITI, the number of new plant locations was 4,143 last year, the highest recorded since the first oil crisis in 1973. With the building of new plants, one after the other, the restructuring of investments on a nationwide scale to meet the worker shortage has begun, adding to changes in the industrial structure.

At present, it has begun to appear that there is a relaxation in supply and demand for some products, and investment targeted at increased production may be reversed in early fall. On the other hand, signs can be seen that the desire to invest in people is growing stronger and stronger. It is moving from a temporary labor-saving to full-scale survival strategy. "Worker shortage investment" has surfaced as a major player in facilities investment.

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[Text] Adverse Wind of Cheap Stock in Capital Procurement

It was the afternoon of the 13th of this month when stock prices took a precipitous drop. Ken Takayama, managing director of Takaoka Electric Manufacturing, headed for the Tokyo Stock Exchange to announce a public offering of new shares. Outside a strong wind blew announcing spring, but inside Director Takayama's heart, it felt like he had "set out in a driving rain (stormy plunge of the market)."

Under the circumstances when stock prices were continuing to go down, and one after the other, companies were deciding to suspend equity finance (increased capital accompanying issue of new stock), the debate within his company as to "whether they should venture to issue new shares now" was natural. At a Board of Directors meeting the day before the announcement, the intentions of the management team were reconfirmed and the "go sign" was given. Of course, the price of the company's stock "was in a comparatively stable trend," (Director Takayama), but most of all, it was judged that they could not delay in investing in increased production to meet the large domestic demand and the procurement of low interest capital was indispensable for that.

Difficult To Ensure Profit Rate

About Y12 billion was procured with this public offering of new shares and new plants will be built in Sendai and

Hamamatsu. Even though maintaining a Y6 annual dividend and having a 10 percent gratis issue as a profit rebate, the cost of procurement was less than 3 percent per annum. As a result, it appears that the increase of fixed costs accompanying the Sendai plant to be constructed this year, including depreciation costs, will be no more than about Y1.2 billion a year. However, if this were covered by a loan from a bank, the increase in fixed costs would be over Y2 billion.

"If the price of our company's stock should plummet in the future, we will switch to a loan but in that case, we would have to restudy facilities investment, including some reduction in the program." Director Takayama points out the great influence that the difference in capital cost gives to investment.

Vice President Chihiro Kanekawa of Shin-Etsu Chemical also says, "To invest in a new product, for example, there is no product which can ensure a profit rate of 7 to 8 percent for the initial investment amount (corresponding to loan interest)." The difference between cheap funds from the capital market and a loan also comes out in the details of use.

After the plunge in stock prices, an urgent directive flew to the Business Survey Department of the Nikko Research Center. Was the cheap yen, high interest, and cheap stock "influence on facilities investment safe"? About 50 people on the survey staff in Tokyo and Osaka flew to the phones to begin hearing from those in charge of finance at about 60 listed companies.

Abundant Financial Power for Time Being

"The facilities investment related to our planned restructuring was difficult. We had to retrench." It was the stern voice of a person in charge at a major precision machinery manufacturer on the other end of the phone. However, the move to revise with cuts in facilities investment because of the worsening finance environment has not yet spread. Behind that is the abundant financial power of companies.

The financial makeup of Japanese companies has dramatically increased. The aggregate total of owned capital remaining in the hands of the company and cash flow for companies partially listed on the Tokyo Stock Exchange, except for banks, securities, and insurance, was Y11,000,070 million for fiscal 1988. It has swelled 1.4 times compared to five years ago.

With major companies taking in large amounts of capital by new issues, the funds on hand have markedly increased. Even though fund procurement from the capital market has become difficult for the time being, it appears possible that companies can ride out an emergency with such funds.

Mitsukoshi, who suspended a public offering of new issue of 20 million shares of stock, has scheduled a facilities investment of about Y45 billion for the February 1991 period but for the time being, say they will meet it with current deposits which are about Y60 billion. "Because we have no-debt management, even if part of it were covered by a loan, it would markedly hurt our financial structure," (Director Atsuhiko Nagaya).

Body Blow Effect

The gradual influence on management of the shrinking fund procurement pipeline from the capital market cannot be avoided. Last year, companies procured about Y25 trillion in low interest capital with equity financing and improved their financial structure by transferring it to operations or by financing facilities investment. It is feared that this "high stock management" will become stalemated in fiscal 1990 and a brake will be applied to strengthening the management structure. The bill will "be like a body blow in boxing" to future management, (Hiroshi Rikimaru, chief, Business Survey Department, Nikko Research Center). Rikimaru says, "If high interest and cheap stock continue and appropriate economic measures cannot be taken, there will be an effect on investments centering on small- and medium-size enterprises in the latter half of fiscal 1990."

The effect on the market also is a source of concern. Director Iwao Isomura of Toyota Motor Corp. says, "The purse strings are tightening with cheap stock and there is worry that it will have an effect on domestic sales. There is also the view that the assets expansion effect from high stock also has influenced the luxury car boom. While considering that "the triple low has had almost no effect on our company," Director Kenichi Yano of Nippon Seiko says, "there is fear that gloom is appering in the auto and home appliance industries." When high interest and cheap stock work as regressive factors in the market, there will be revisions in the strong facilities investment programs.

Financial Index of Japanese Companies (Except for partially listed companies, banks, securities and insurance on the Tokyo Stock Exchange)

	FY85	FY86	FY87	88
Owned capital ratio (percentage)	23.95	25.13	25.98	26.79
Liquidity in hand ratio (times)	1.26	1.61	1.84	2.03
Loan dependence (percentage)	41.67	42.18	41.29	39.26

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[Text] **Interest in Overseas Investments Not Waning; Cheap Yen Sent Flying**

Overseas direct investment by Japanese companies quickly expanded with the occasion of rise of the yen following the Plaza Accord in September 1985. Since the fall of 1988, the foreign exchange market has turned around and followed a low yen trend, but overseas direct investment has continued to increase, reaching about $60 billion in 1989, a 40 percent increase over the previous year. Direct investment by the manufacturing industry inherently has the structural problem of avoiding trade friction. Although the 1990 increase rate

over the previous year has lessened somewhat due to minus factors such as the low yen, there has been no change in the underlying trend toward large-scale increases.

USX, a large steel manufacturer in the United States and Kobe Steel have started joint projects, one after the other, in the United States. President Motokichi Kamedaka emphasizes, "We are concerned about the triple low (low yen, low stock, and low bonds), but the capital has all been provided. We will continue business in the United States from a mid- and long-term view."

The USX/Kobe Steel Company established jointly by Kobe Steel and USX is proceeding with joint production projects such as bar steel and wire rod at the Lorain Ironworks in Ohio. The amount of investment is slightly less than $1 billion. In addition, there are a variety of projects such as the start of construction on a joint factory for surface-treated steel plate this summer. "If the terms are good, we will consider M&A [merger and acquisition]," (President Kamedaka). Kobe Steel's aggressive attitude is backed by the fact that the desire of Japanese companies for overseas investment is not weakening at all.

Major auto manufacturers such as Toyota Motor Corp. and Nissan Motor Co. are planning large investments in Europe and the United States from 1990 to 1992. Overseas facilities investment has entered the second stage with Toyota's plant in Great Britain and Nissan's second quarter construction of plants both in the United States and Great Britain.

Amidst the overseas direct investment of Japanese companies, which is continuing to increase, investments in Europe aiming at the EC market integration in 1992 are increasing in weight. Overseas direct investments by region on the basis of reports to the Ministry of Finance, rose to 47.5 percent overall for North America in fiscal 1988, and concentration of investment in the United States was more noticeable. However, investments in Europe suddenly increased at the beginning of fiscal 1989 and in contrast to the drop to 44.7 percent for North America in the first half of fiscal 1989 (April to September 1989), those for Europe rose from 19.4 percent in fiscal 1988 to 24.9 percent.

OA [office automation] Equipment Trend Stands Out

OA equipment manufacturers such as Canon and Ricoh have poured great effort into investment in Europe. The major products, copiers and facsimile machines have become the target of strengthened dumping regulations and the expansion of local production is an urgent need. The amount of overseas direct investment by Canon for fiscal 1990 is scheduled to be about Y37 billion, a 30 percent increase over the previous fiscal year. The plan is to raise the 21 percent overseas production ratio of fiscal 1989 to 35 percent within five years, centering on Europe.

Ricoh also plans future increases in facilities expansion investment in Europe such as copier and facsimile production bases in France and new production of a heat sensitive paper at Ricoh Industry France.

Last fall, the Overseas Investment Research Center of the Export-Import Bank of Japan made a survey of all industry categories concerning their overseas investment programs for the next three years (fiscal 1989 to 1991). The EC was the region being studied most specifically for inroads, and responses that there would be new or additional facilities accounted for 28.3 percent, exceeding the 26.8 percent for the United States.

How long will the rapid increase in overseas direct investment continue? Views are divided. The amount of overseas direct investment for the most recent 10 months from April 1989 to January 1990 is $52.8 billion, a 34 percent increase over the same period the previous year, already greatly exceeding the $47 billion for all of fiscal 1988. Although it is called the arrival of the globalization age, many people believe things are moving too fast.

Fear of Promoting Domestic Drain

According to preliminary calculations by the Industrial Bank of Japan, if expansion of investments is hypothesized at a 10-percent annual rate in the future with fiscal 1988 as the base, the overseas production ratio will expand from the 5.2 percent in fiscal 1988 to 33.9 percent in 2000. The amount of local production money in that case will reach $1,830 billion, exceeding the $1,500 billion of domestic manufacturing industry sales in 1985. This will create a so-called domestic drain.

On the other hand, direct investment in Japan by foreign capital firms, which has been a problem in U.S.-Japanese SII talks, was $3.24 billion in fiscal 1988, less than 10 percent of the amount of overseas investment by Japanese firms. It is clear that the imbalance in domestic and foreign investment will become a problem again.

Further opening of domestic markets and international reflux of surplus capital probably will appear as issues which must be solved on a priority basis.